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Canada/Yukon
Economic Development Agreement

ACCESS TO CAPITAL STUDY

June 1986

EXECUTIVE SUMMARY

The Yukon Territorial Government and the local Yukon business community have identified the cost and difficulty of obtaining business financing as an important factor restricting the growth and development of the private sector in the Yukon. In response to this concern, a comprehensive study of the access to capital by Yukon businesses was commissioned through the Canada-Yukon Economic Development Agreement. The following discussion reviews the major financing problems and difficulties identified during the course of the study, and presents a series of recommendations,which could effectively improve the access to capital by Yukon businesses.

Financing Problems and Difficulties

A wide cross-section of Yukon businesses, government officials and financial institutions serving the Yukon were interviewed during the course of the study. From these interviews, a number of business financing problems and difficulties were noted:

Rural Development: there appears to be a general concensus that rural businesses in the Yukon face special difficulties in accessing capital. These difficulties include insufficient equity, problems in obtaining debt financing, a lack of business training, and specific constraints such as the difficulty of obtaining insurance and the inability to secure long term leases for businesses operating on Crown owned land.

Education and Training: a frequent comment related to the concern that many small business owners and managers lack the education and training required to efficiently operate a small business.

Native Owned Businesses: it was generally agreed that native owned businesses are more likely to face problems in accessing capital, and that special consideration should be given to the requirements of native businesses.

Lack of Security: even financially viable businesses reported difficulties in providing the security required to obtain debt financing.

Business Phase: there is a general concensus that financing requirements can vary significantly depending upon the phase of business development. While it was agreed that emerging or developing businesses faced the greatest difficulties in accessing capital, specific problems were also noted for expanding and mature businesses.

Financial Services in Rural Areas: many rural businesses expressed concern over the lack of financial services outside of Whitehorse, and the difficulty and cost of travelling to Whitehorse to access banks or obtain financing.

Flexibility of Debt Repayment: a number of businesses and individuals indicated a need for flexible terms in the repayment of loans.

Non-Financial Issues: it was noted that there are a number of non-financial issues which limit the ability of businesses to obtain financing. These issues include: the lack of commercial mortgage insurance in the Yukon; the difficulty experienced by contractors in obtaining bonding; the difficulty of obtaining mortgages for developments located on leased Crown land; and problems experienced by forestry companies who are only able to obtain short term timber leases.

As the reader will note, the above list includes a wide range of issues which to some extent impacts on virtually all Yukon businesses.

Recommendations

Based on the problems and concerns discussed above, a number of key financing issues were identified and a series of recommended solutions were proposed for each of those issues. In reviewing these recommendations, it should be noted that three basic principles had a major influence in determining the recommended options. Briefly, these principles were:

1. **Importance of Equity:** the recommendations are intended to provide a means of promoting equity investment in small business. A number of the individuals interviewed stated that many Yukon businesses suffer from a lack of equity, and to their own detriment have an over-reliance on debt financing.

2. **Minimization of Direct Government Involvement:** while many of the recommendations such as an expanded program of loan guarantees would require direct government participation, an emphasis has been placed on developing mechanisms which will allow small businesses to utilize private sector sources of capital.

3. **Avoidance of New Programs:** with confusion already created by a mulitude of different government assistance programs, there was a deliberate attempt to avoid recommending the establishment of new programs oriented towards specific areas or industries. The recommended programs have a wide scope and should be readily adapted to meet the needs of most small businesses.

The recommendations are as follows.

Equity Requirements

1. <u>Private Investment Incentives</u>: it is recommended that the Yukon Territorial Government consider the establishment of a program which would encourage equity investment in small Yukon businesses. The

program would allow investors to invest relatively small amounts of capital into qualifying businesses, and in return receive a grant or tax credit from the Yukon Government for a percentage of their investment. The grant or tax credit would likely range from 30% to 50% of the investment.

2. Small Business Equity Corporations: it is recommended that the Government consider legislation allowing the creation of small business equity corporations. The program would encourage investors to consolidate capital within small business equity corporations and re-invest those funds into qualifying Yukon small businesses. The minimum investment into an equity corporation would be in the range of $20,000 to $25,000, and investors would receive a grant ranging from 30% to 50% of any investments into qualifying small businesses.

3. Public Venture Capital Companies: the public venture capital company concept implemented in other areas of Canada is not considered appropriate to the Yukon. However, the Government may wish to establish a mechanism which would allow it to inject equity directly into specific industries or regions, with rural small businesses as a prime example. The Yukon could invest directly through an agency such as the Yukon Development Corporation, or indirectly through an intermediary such as Dana Naye Ventures.

Debt Financing

4. Loan Guarantees: it is recommended that the Yukon Government consider the establishment of a program of loan guarantees which would provide guarantees in excess of the $85,000 limit now stipulated by the Small Business Loans Act. Recommendations regarding the amount of loan guarantee could be made the responsibility of an agency such as the Small Business Assistance Program Advisory Committee. The primary objective of the expanded loan guarantee program would be to assist in the financing of viable businesses which were unable to obtain financing due to such factors as inadequate (or undervalued) security, the inability to obtain a

long term lease, or the inability to obtain adequate insurance. As most small businesses in the Yukon would normally qualify under the current $85,000 limit, it is expected that this program would primarily benefit businesses which are located in rural areas and which frequently face problems with security, tenure and insurance.

5. Direct Loans: recognizing the priority which the Yukon Government has placed on rural development, the Government may also wish to establish a program which would allow it to direct loan funds in support of rural small business. This could be accomplished directly through an expansion of the Small Business Assistance Program, or indirectly through an intermediary such as Dana Naye Venture.

Business Training and Education

6. Video Tape Instruction Seminars: it is recommended that the Yukon Territorial Government, in association with organizations such as the Chamber of Commerce and the FBDB, consider the development of a series of business seminar video tapes. These video tapes would be made available on a loan basis to individuals and businesses. The Business Development Office has recently begun development of such a program.

Business Advisory Services

7. Management Assistance Program: in association with local Chambers of Commerce, the Yukon Territorial Government should consider the establishment of a management assistance program which would provide direct management consulting services to businesses located in rural areas.

8. Business Advisory Services by Local Businessmen: in conjunction with local Chambers of Commerce, it is recommended that the Yukon Government consider the development of local business advisory committees, the purpose of which would be to provide advisory services to assist developing local businesses.

Physical Access to Financial Institutions

9. Incentives to Encourage Establishment of Rural Bank Branches: it is recommended that the Yukon Government continue its efforts to determine what incentives may be required to encourage the establishment of bank branches in rural areas. Should these efforts prove unsuccessful, it is further recommended that the Government give consideration to the establishment of a financial institution, similar to the Alberta Treasury Branches, which would have a mandate to provide financial services throughout the Yukon.

10. Local Agents: in rural communities where a bank branch would not be feasible, it is recommended that the Yukon Government support the appointment of local agents who would provide residents with deposit/withdrawal services, and possibly personal and loan services. The agents could represent the Yukon Government, although the preferred option would be to encourage one of the chartered banks to establish a system of agents.

Other Issues

11. Native Requirements: as native businesses tend to face many of the same financing related problems as firms owned by non-natives, it is recommended that current and proposed programs be reviewed in order to ensure that they meet the needs and are accessible to native businesses.

12. Placer Mining: should the Yukon Government decide that additional support is necessary for the placer mining industry, it is recommended that placer mining be made eligible for funding under the Small Business Loans Act, the Small Business Assistance Program, and other programes outlined in this report.

13. Duplication of Programs: the recommendations made above would overlap and partially duplicate a number of the current small business assistance programs. Therefore, before implementing these recommendations, it is recommended that the government conduct a thorough review of the proposed and existing programs in order to identify areas of overlap and duplication.

Even without the introduction of new programs, a strong argument can be made for conducting a more detailed examination of the overall organization and scope of small business assistance programs in the Yukon. As noted earlier, many individuals interviewed during the course of the study were confused by the number of small business assistance programs, and expressed concern over the apparaent duplication of services.

14. Non Financial Issues: the study has identified a number of non-financial issues which can seriously restrict a small business's ability to obtain necessary financing. It is recommended that the government examine these issues in order to determine what measures can be taken to reduce the negative impact which they have on business financing. A list of the issues identified during the course of the study includes: lack of longer term cutting rights for forestry; difficulty in obtaining financing for business located on Crown owned land; difficulty in obtaining fire insurance in rural areas; the difficulty faced by small contractors in obtaining bonding; and the need to deal with a number of regulatory agencies in order to obtain required licenses and approvals.

As a final note, it should be recognized that the above recommendations relate solely to the need for new, expanded or revised programs. No attempt has been made in this study to determine the level of funding required for existing or proposed programs.

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INDIVIDUALS AND ORGANIZATIONS INTERVIEWED

1.0 INTRODUCTION

The further strengthening and diversification of the Yukon economy has been established as a prime economic objective of the Yukon Territorial Government. In support of this objective, the Canada/Yukon Economic Development Agreement (EDA) was implemented in May of 1985 when four sub-agreements were signed. These sub-agreements dealt with the areas of Economic Development Planning, Tourism, Mineral Resources and Renewable Resources respectively.

Part of the Economic Development Planning Sub-Agreement is the identification of priority economic issues which must be addressed if Government is to be successful in achieving the objective of strengthening and diversifying the local economy. One of the key issues identified to date has been the concern expressed regarding access to capital by Yukon businesses. Both the local business community and government officials have indicated that the difficulty, and cost, of obtaining business financing may be one of the most important factors restricting the growth and development of the private sector.

In order to address this concern, the Canada/Yukon EDA has commissioned a comprehensive study of business financing in the Yukon. The firms of IMC Management Consultants Ltd., in association with Ordish and Williams Chartered Accounts, were selected to undertake this study. The objectives and terms of reference of the study are discussed below.

1.1 STUDY OBJECTIVES

The overall purpose and objectives of the study were clearly stated in the Terms of Reference provided by the client. In summary, the purpose of the study was to provide a comprehensive review and investigation of the financing requirements of Yukon businesses. The study was to include the identification of financing programs currently available, of apparent gaps or areas of duplication in financing programs, and of potential solutions where existing programs were considered inadequate. Furthermore, while the study was to include all Yukon

businesses, it was also directed that a special emphasis be placed on determining any financing problems or difficulties experienced by businesses located in communities outside of Whitehorse.

A key objective of the study was the identification of possible solutions for improving the effectiveness of existing financial assistance programs. Specifically, the study was intended to:

- identify the need for any new government sponsored funding programs, as well as specific businesses or sectors which should be the principal target of these programs

- the nature, terms and conditions of any new programs which might be introduced to improve access to capital

Ultimately, the objective of the study was to identify for government possible actions which may be taken to improve access to capital by Yukon businesses.

Finally, the Terms of Reference also directed that a focus be placed on the financing of small businesses. For the purposes of this study, a small business was defined as a private business with a total asset value of less than $7.5 million.

1.2 REPORT ORGANIZATION

The following report has been organized in a manner which reflects the major elements or components of the study. The report is comprised of five sections:

- Introduction: discusses the background, objectives and organization of the study.

- Small Business Financing Requirements: examines the financing requirements of Yukon small businesses, as well as any problems or difficulties encountered by business in accessing capital.

- Sources of Small Business Financing: a comprehensive review of both private and public sources of financing available to businesses, including innovative programs available outside of the Yukon.

- Financing Problems and Opportunities: identifies the key issues influencing access to capital by business, and examines potential solutions.

- Recommendations: presents recommendations regarding programs and options which the Yukon Territorial Government may wish to investigate further.

The report is also accompanied by appendices which provide further detail concerning organizations and individuals contacted during the course of the study.

1.3 ACKNOWLEDGEMENTS

Important contributions have been made to the study by a number of individuals and organizations.

The study was undertaken under the direction of Mr. Rob McWilliam, Director, Policy, Planning and Research Branch, Government of Yukon. The Consultant Team also benefited from valuable guidance and assistance provided by members of a special study Advisory Committee. The Advisory Committee members included:

Member	Representing
Bill Bowie	Dawson Chamber of Commerce
Chuck Halliday	Whitehorse Chamber of Commerce
Colin Heartwell	Northern Affairs Program - DIAND
Jim Holt	Watson Lake Chamber of Commerce
Judy Gingell	Yukon Indian Development Corporation
Richard Sidney	Teslin Indian Band

The study also involved an extensive interview program which included Yukon businesses, government officials, business organizations, and financial institutions. A complete listing of individuals interviewed is presented in Appendices A and B.

2.0 SMALL BUSINESS FINANCING REQUIREMENTS

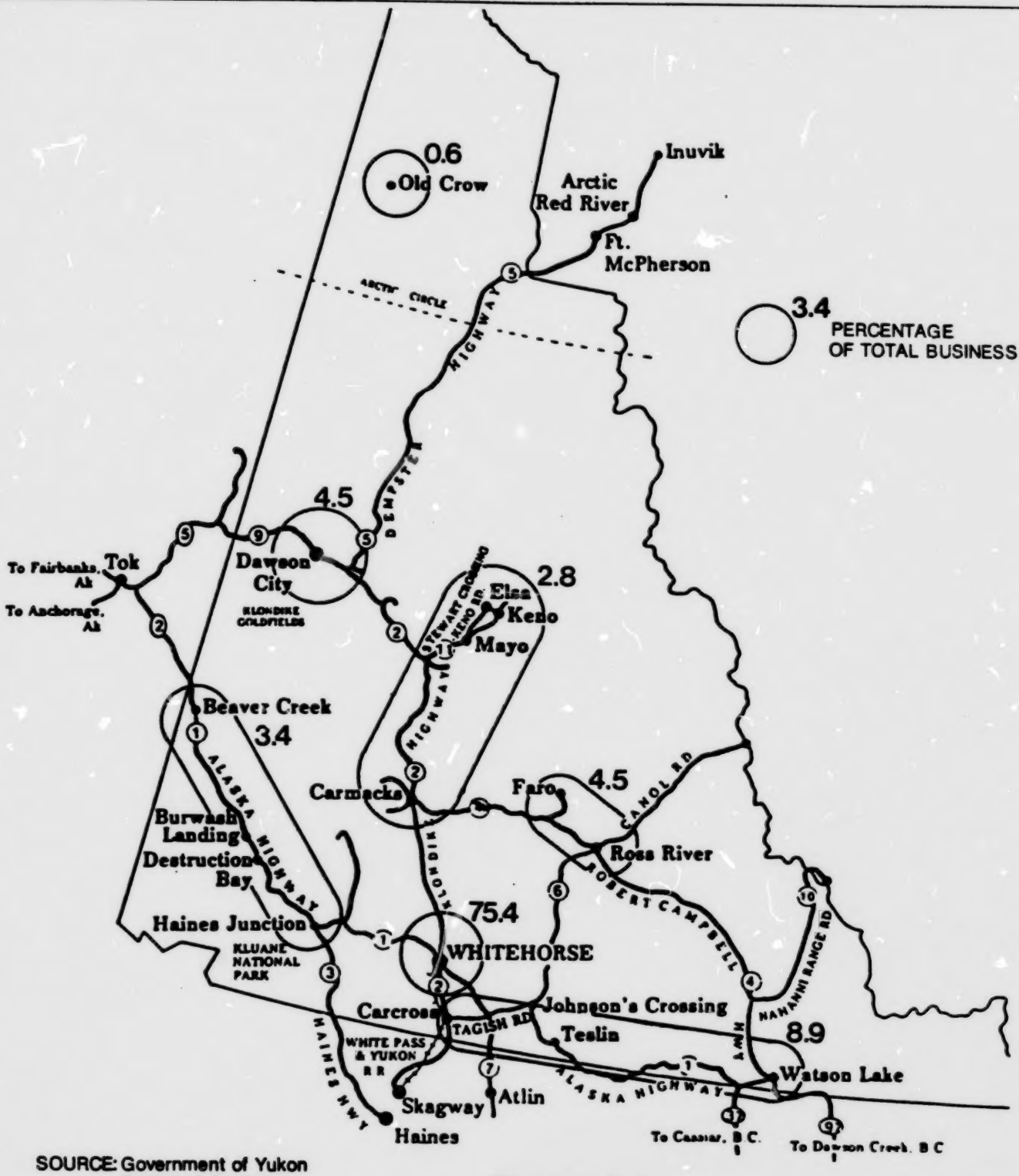
One of the major objectives of the study was to determine the financing requirements of Yukon businesses, as well as any problems or difficulties encountered by businesses in accessing capital. To provide this information, the study included an interview program which involved Yukon businesses, industry associations, government officials and individuals. The interview program was structured in a manner which would assure representative responses from businesses of different sizes, as well as from firms representing a cross-section of industries and communities within the Yukon.

The following section provides a summary of the responses obtained through the interviews. The discussion begins with a brief overview of the Yukon business environment, and follows with a detailed review of the comments received.

2.1 YUKON BUSINESS ENVIRONMENT

According to the Yukon Business Profiles Summary published by the Government of the Yukon Bureau of Statistics in November 1985, there are 1506 businesses currently in operation in the Yukon. A number of important points regarding the nature of the Yukon business environment can be drawn from the Business Profiles summary. These include:

- Business Location: of the 1506 businesses in operation in the Yukon, 1135 or approximately 75% of all businesses are located in Whitehorse. The next largest centre of business activity is the Watson Lake/Teslin/Carcross corridor which accounts for approximately 9% of territorial businesses. The distribution of business activity within the Yukon is illustrated in Figure 2.1.



SOURCE: Government of Yukon
Bureau of Statistics

Figure 2.1

PERCENTAGE OF TOTAL BUSINESSES BY COMMUNITY

- Business Size: the overwhelming majority of businesses in the Yukon are what may be considered very small businesses. In total, 1346 businesses, or 89% of all Yukon businesses, reported that they employ 5 or fewer employees. While the terms of reference for the study defined a small business as one with less than 7.5 million dollars in assets, it can be seen that the majority of businesses are much smaller than that.

- Business Sector: business activity in the Yukon is distributed throughout a number of industry sectors, although the majority of businesses tend to be in the service and retail sectors. The distribution of businesses, by industry sector, is as follows:

Non-manufacturing	14.9%
Manufacturing	4.0%
Transportation and Communications	8.0%
Wholesale and Retail Trade	21.7%
Finance and Services	20.9%
Other	30.5%

The highly centralized location of Yukon businesses, and the fact that the vast majority of Yukon businesses fall into the very small category, are two points which should be kept in mind when reviewing the following comments.

2.2 INTERVIEW PROGRAM

The primary objective of the interview program was to develop a clear understanding of small business financing requirements as well as the problems encountered by businesses in their efforts to obtain capital. To achieve this objective, it was important that the interviews achieve a good cross-section of small businesses operating in the Yukon.

In structuring the interview program, the first step was to identify those factors which could have an important influence on the ability of the business to attract necessary capital. A number of factors were identified, including:

- type of business
- phase of business development
- business size
- business location

In consultation with the Study Advisory Committee, it was agreed that each of these factors should be specifically addressed during the interview program.

A total of approximately 45 individuals and organiziations were interviewed as part of this component of the study. Interviews with bank management, government officials and individuals outside of the Yukon were in addition to this figure and the results of those interviews are discussed in Section 3 of the report. The location of those interviewed as part of this component of the study is as follows.

Location of Individuals Interviewed.
Financing Requirements and Problems

Burwash Landing	2
Carmacks	3
Dawson City	10
Destruction Bay	1
Elsa/Mayo	1
Stewart Crossing	1
Teslin	1
Watson Lake	9
Whitehorse	6
Elected Officials	2
Industry Organizations	9
Total	**45**

In addition to attempting to obtain a reasonable distribution of interviews by location, the interview program was also structured to obtain a good cross-section of small business industry sectors. The distribution by sector was as follows:

Industry Sector of Individuals Interviewed
Financing Requirements and Problems

Retail	14
Manufacturing	4
Business Services	9
Tourism	10
Forestry	11
Placer Mining	4
Total*	45

(* The total does not add due to the fact that some individuals interviewed are active in more than one industry.)

A complete listing of individuals and organizations interviewed is provided in Appendix A.

Finally, it is important to note that comments presented during the remainder of this section represent the opinions or perceptions of the individuals interviewed. While many of these comments are accurate and based on fact, it must be recognized that they represent one viewpoint and that there may be other opinions which offer a different view of the issue of business financing. The comments and opinions provided by the financial community are presented in Section 3, while a comprehensive overview of business financing issues is presented in Section 4.

2.3 REQUIREMENTS BY BUSINESS PHASE

Through both the interview program and other studies, phase of business development has been identified as one of the key factors influencing the ability of a business to obtain financing. This is generally true whether the business is attempting to attract additional capital in the form of equity, debt or even government assistance.

It is generally agreed that there are three broad phases in the development of most successful businesses. These phases are:

- Emerging/Developing: this is the initial phase of development and is without question the point at which a business is at greatest risk. This relatively high degree of risk is a direct result of the fact that many emerging or developing businesses are catering to new or untried markets, are offering a new service, product or technology, and are often led by relatively inexperienced management.

- Expanding: once a business has established a sound operation with a solid customer base, many businesses seek further growth by developing new services, products or markets.

- Mature: businesses which are well established and have no plans for a significant expansion of their markets are typically classified as mature businesses.

Based on the above categorization, the interview comments were analyzed to determine if any of the problems noted could be attributed to the phase of business development.

One point which became quite clear after analyzing the comments was that established businesses which are in what can be considered the expanding or mature phase, do not experience the same problems as new businesses which are just emerging and developing. With few exceptions, most of the established

businesses indicated that they experienced relatively few problems with access to capital. These businesses were in most cases well established, they had developed a good working relationship with their bank, and importantly, they knew what was expected of them by the bank. The majority of the comments received indicated that as long as their business was viable and they had a sound reason for requiring additional capital, the businesses could not complain of any major difficulties in obtaining capital (there were specific exceptions which are discussed below).

An example of some of the comments received from established businessmen include:

> "Capital has not held us up."
>
> "The bank does not put onerous conditions on a loan if you are a long time resident."
>
> "No problems; I am happy with the banks, I started small and now I have the collateral."

In contrast, businesses that might be considered in the emerging or developing phase did report problems which could be attributed to their phase of development. One major complaint was that there is lack of asset capital to start a new business. By lack of asset capital, the individuals were largely referring to the lack of private equity capital available in the Yukon and the chartered bank's refusal to provide risk or venture capital. Comments were made that:

- the banks will not provide long term debt financing based on speculative projections.
- the banks may require personal guarantees for debt financing, forcing the individual to risk everything to startup a business.

- in some cases, the decision to make a commercial loan is made outside the Yukon where the regional bank offices are unfamiliar with local conditions and the local business environment, and as such are reluctant to place loans in the Yukon.

- the banks are reluctant to become involved in any business which is new to the Yukon. It is seen as a high risk to the bank even if it is an established industry elsewhere.

Relative to their complaint, examples of some of the comments received include:

"Many problems are caused by a lack of business experience on the part of the borrower."

"Small businesses have to put their life in front of (the bank) to borrow $30,000."

"People have gone into business and do not know what to expect."

Also related to new businesses, a number of complaints were made that banks were unwilling to finance working capital requirements and that this was a particular problem for many new businesses. The comments indicated that much of the capital of a new business was required for the acquisition of fixed assets, and that many businesses lacked the necessary working capital.

2.4 REQUIREMENTS BY INDUSTRY SECTOR

The interview program included a number of industry sectors in which small businesses are involved. The sectors specifically identified included:

- retail
- manufacturing
- business services
- tourism
- forestry
- placer mining

A special attempt was also made to contact native owned businesses involved in these sectors.

Comments received from businesses involved in the retail sector indicated that the major problem was the difficulty in obtaining financing for working capital, primarily inventories. As discussed further in Section 3, banks provide working capital loans to a maximum of 25% to 50% of the value of inventories, and 50% to 60% of accounts receivable. Complaints were also made that banks should allow flexible repayment terms which would better match the cash flow of the business.

Similar comments were received from firms involved in the manufacturing sector, with one of the major problems being the difficulty of financing working capital, especially inventories and work in progress.

Businesses in the tourism industry indicated that the seasonal fluctuation in cash flows, and the difficulty of servicing loans under those circumstances, was one of the major problems faced by the industry. Although not unique to tourism, comments were also received that the lack of banking services in rural areas was a significant problem, both in terms of services such as deposits/withdrawals, and in obtaining financing.

For the forestry sector, one of the major concerns was the indirect effect short term cutting leases had on their ability to acquire financing. Because of the short term lease, banks are reluctant to lend to forestry firms because revenues cannot be projected with any degree of certainty into the future. Businesses which have short term leases on Crown owned land also expressed similar

concerns, as without secure tenure, banks were reluctant to provide long term financing.

For placer mining, the major problem noted by those interviewed is the industry's complete dependence on debt financing. The individuals contacted stated that apart from their own personal investments, they did not have access to any other private equity and that no government assistance programs exist to assist the placer mining industry. With respect to debt financing, they repeated that the banks:

- will not always provide long term asset capital based on speculative projections.

- will not always provide working capital to finance placer mining operations.

- are reluctant to provide loans for operations in remote areas which are difficult for the bank to service.

- are generally unfamiliar with the placer mining industry.

Finally, interviews with native businessmen indicated that many native owned firms face the same problems encountered by non-native businessmen, although in the case of the native businesses the problems are often more frequent and more severe. Specific problems noted included the lack of equity capital and the difficulty of financing businesses located on leased reserve land.

2.5 REQUIREMENTS BY BUSINESS LOCATION

The remote, northern location of the Yukon creates certain access to capital problems for all small businesses located in the Yukon. The problems listed by those contacted (including businesses in Whitehorse, Watson Lake, Teslin, Burwash Landing, Destruction Bay, Elsa/Mayo, Carmacks, Dawson City and

Stewart Crossing) generally apply to all communities in the Yukon, although they tend to be more significant outside of Whitehorse. Some of the key problems experienced include:

- poor physical access to funding facilities (for day to day banking or obtaining financing) and other professional services (legal, accounting, business advisory) with this problem confined largely to rural areas.

- the chartered banks are reluctant to provide loans in remote areas that are difficult to service.

- lower values are placed on assets which are used as security (particularly outside Whitehorse) as the value is market based, not cost based.

- the insurance required on assets acting as security becomes increasingly expensive in more remote locations.

- it is difficult for a small business or a financial institution to evaluate the market to prepare a business plan in the Yukon where the market is small and geographically dispersed.

As the above comments indicate, while some problems may affect all businesses in the Yukon, many are specific to businesses located in rural areas outside of Whitehorse. This observation is reinforced by a number of the specific comments received:

"Banks won't lend money more than 100 miles out of Whitehorse."

"(Being in the) boonies creates problems."

"(It's a) problem finding someone in authority who can say 'yes'."

2.6 REQUIREMENTS BY BUSINESS SIZE

As might be expected, there is a strong relationship between the comments received regarding the effect of business size and the phase of development. The larger, more well established businesses generally indicated that they did not experience any signficiant financing problems which could be related to the size of the business. Again, the most important criteria appeared to be such factors as the viability of the business, quality and track record of management and the ability to repay the loan, and not how large the business was. The same comments applied to smaller firms that were well established.

One problem which was noted relative to size was that loans under $25,000 tended to be more difficult, and costly, to acquire. This comment was confirmed to some extent by the banks: a number of the banks indicated that smaller loans tended to be more costly to administer relative to the size of the loan than larger ones. Given the very small size of the vast majority of Yukon businesses, this complaint could reflect a significant problem.

2.7 OTHER ISSUES

A number of other financing related problems were commented on and are reviewed below.

Business Education and Training

A lack of adequate business education and training was a concern raised by both businesses and banks. It was widely agreed that without proper education and training, businesses would find it difficult to acquire capital and operate profitably. A sample of the comments received includes:

> "Financial information is a problem - people come (to the banks) without a financial statement, poor management, and they don't understand cash flows."

"(Many businesses) don't realize how bad a job they are doing."

"I did not open my operation properly. Due to management errors, cash flow (problems) can bring a business down. I was so optimistic and felt everything would go ahead."

Government Programs

There were a number of concerns expressed regarding the role of government in the support of business, and the apparent proliferation of government programs. Many commented that the government's role should be limited, and that there was a need to better co-ordinate and inform the public of government programs. The comments received included:

"(There is) confusion about the myriad of government programs."

"The one stop business shop is redundant."

"We need an inventory of where to find money; we are out in left field in the wilderness."

"Governments should stay out of things as much as possible. If they make loans and grants to anyone it will require a bigger bureaucracy and they will probably muck it up."

"I was very frustrated. There is a red tape problem. Pushed around from one program to another."

"No one knows what the government is doing. There is no overall view as to the direction of the programs."

"Civil servants have no clue as to business."

Criticism of Banks

A number of those interviewed were critical of the banks, particularly the apparently onerous conditions which banks place on loans. Specific complaints were made regarding excessive security requirements, the cost of financing and a general lack of understanding of the special requirements of the Yukon. A sample of the comments received is provided below:

> "Banks treat you like you are working for them and not as if the bank is working for you."
>
> "If you don't need the money, they want to lend it to you."
>
> "No way I would deal with the banks."
>
> "Banks don't want to get involved in the expansion but will finance it after it is built."
>
> "Security requested is completely out of line. They want 3 times the security required for a loan."
>
> "I can't get reasonable money."

In some instances, there was also the concern that banks did not treat natives fairly, or that natives were not comfortable dealing with banks. Two comments were:

> "Bands and their people are intimidated by the banks. They lack confidence to approach a bank."
>
> "Banks won't touch a business on a reserve."

Personal Expectations

An often repeated complaint is that many potential business owners are not willing to risk their own capital and that they expect too much from the banks and the government. These views are reflected in the comments received.

> "People request 110% financing on a project, yet don't want to take any risk personally."

> "People are not judicious yet they expect risk capital."

> "Government programs have fostered the expectation that the government will continue to help. Business expects assistance to continue and they don't realize that even if it is free that it may not be a good idea."

> "The bank wants personal guarantees. Once they get you they try to get more and more. You can't get a loan unless you have more equity to put in."

> "People expect more than is coming to them."

> "We feel it is a right and not a privilege to obtain a loan."

Government Grants

Government grants were a source of frequent criticism, both for the government's role and because many considered them inequitable.

> "Grants remove discipline. People like it if it is free."

> "don't make me compete against my own tax revenue"

> "why should one business get a grant and not the other"

"people should be educated to stand on their own feet"

The above comments reflect those received during the course of the study. A more complete analysis and summary of business financing problems is presented in Section 4.

3.0 SOURCES OF SMALL BUSINESS FINANCING

In conjunction with the review of business financing requirements, the second major objective of the study was to provide a comprehensive review of the different sources and types of capital available to businesses. This review was to include both existing sources of capital within the Yukon, as well as innovative financing programs available elsewhere in Canada.

The following section is intended as an overview of the sources and types of business financing available. The discussion is divided into three parts which separately review the three major sources of business capital: equity, debt, and government assistance.

3.1 EQUITY

Equity investment represents what is probably the single most important source of capital for small businesses. Equity is a form of "patient" capital which can reduce cash flow requirements and assist a small business during its early years. A strong equity base is also important if a business is to be able to obtain additional capital in the form of debt financing, capital which is essential to the continued growth and development of a small business.

As noted above, the following discussion reviews sources of equity capital presently available within the Yukon, as well as sources of equity capital available elsewhere in Canada.

3.1.1 Currently Available in the Yukon

The primary source of small business equity in the Yukon is the business owner. This is typical of small businesses across Canada and can be expected given the relatively modest equity requirements of most small businesses, and the fact that in many small businesses the owner or owners are also the key management and staff.

Institutional sources of equity in the Yukon are limited, and the only sources indentified rely primarily or solely on government funding. Two organizations currently offering equity funding are the Federal Business Development Bank (FBDB) and Dana Naye Ventures. It is also expected that the newly formed Yukon Development Corporation may become involved in providing equity for Yukon businesses.

3.1.2 Existing Elsewhere

Private equity sources elsewhere are generally similar to those in the Yukon. However, a number of provinces have in recent years passed legislation to stimulate private investors to consolidate their equity capital using institutions known as venture capital corporations. The governments have chosen to provide incentives and mechanisms to stimulate private sector investment in small business, rather than providing direct government investment. The pools of capital are privately organized, capitalized and managed.

In Alberta the venture capital corporations are known as Small Business Equity Corporations (SBEC's) whereas in British Columbia they are called Venture Capital Corporations (VCCs). Individuals, groups of individuals or corporations who wish to form an equity corporation must invest a minimum of $25,000 in equity capital which must be increased to a minimum of $100,000 by the end of the first year of registration. Each party purchases voting (equity) shares in the corporation, and 30% of its equity capital is set aside in a trust fund held by a trustee appointed jointly by the investors and the Crown. The investors may then apply for a grant equal to 30% of their actual investments in eligible small businesses, with the grant either provided directly or in the form of a refundable tax credit.

The corporation may be private or public and may invest up to $10 million in Alberta, and $2.5 million in B.C. The corporation's funds must be invested (certain plateaus must be met within a specific time frame) in eligible small businesses and the corporation cannot exceed 49% ownership of any one small

business. The money invested can be used for start-up costs, debt restructuring or expansion, but cannot be used for lending, reinvestment outside Canada or to purchase securities.

Eligible small businesses must:

- be an incorporated small business controlled by Canadians.

- have fewer than a set number of employees, or pay a set percentage or more of its wages and salaries for operations within that province.

- not obtain more than a set percentage of its revenue from: lending money; rental income; real estate projects; mortgages or other debt instruments; insurance or real estate sales; or the purchase or sale of shares or commodities on a stock exchange.

- not be engaged in certain specified industry sectors.

In order to promote investment into publicly traded stocks, Alberta has established the Alberta Stock Savings Plan. The plan provides for income tax credits for individual investors in firms listed on the provincial stock exchange. The plan's objectives are to strengthen the private sector by providing expansion capital for new jobs, to attract more capital to the province, and to encourage local ownership. The tax credit is based on the business's classification as an emerging, expanding or mature business, with the greatest credit being given to emerging. The classifications are based on total assets and gross revenue. All small businesses (less than $5 million assets and $6 million in revenue) are defined as emerging and are entitled to a full 30% credit.

3.2 DEBT

Debt financing is the second key element of the capital structure of most small businesses. The availability of debt financing can vary, however, depending upon

a number of factors which relate to both the businesses and the nature of the loan. An overview of the various criteria consider in determining loan eligibility is presented below:

Business Eligibility

- business plan/succession plan
- management training and experience
- owner's security available
- bonding eligibility

Loan Eligibility

- purpose of funds
- business phase
- industry sector
- type of business (ineligible projects)
- size of business
- location of business
- projected cash flow
- employment conditions
- market competition/economy for that industry
- alternate sources of supply

These criteria, and the impact which they have on the availability of debt financing in the Yukon, are considered throughout the following discussion.

3.2.1 Debt Available in the Yukon

Institutional loans are available from the chartered banks located in the Yukon and from trust companies which service the Yukon. Private sources of debt financing were not investigated as part of this study.

The five major national chartered banks have full service branches located in Whitehorse. These include:

- Royal Bank
- Toronto Dominion Bank
- Canadian Imperial Bank of Commerce (CIBC)
- Bank of Montreal
- Bank of Nova Scotia

CIBC also operates branches in Dawson City and Watson Lake, and offers a travelling bank with deposit/withdrawal services in Teslin, Haines Junction and Carmacks. Beyond the facilities noted above, the only other banking services available are cheque cashing at government liquor stores in municipalities with no chartered banks (Mayo, Faro) and informal group banking arrangements.

The chartered banks offer several types of small business loans (defined by the banks as businesses with financing requirements of less than $200,000). These are:

- operating lines of credit: are frequently used to provide working capital to finance inventory and accounts receivable. Banks will typically provide a loan using as security 25% to 50% of the value of inventory, and 50% to 60% of the value of accounts receivable due within 90 days. These are demand loans, the interest rate is usually floating and no term is fixed. Demand loans can be called at anytime for full repayment.

- installment-fixed rate-fixed term credit: the preferred option for providing capital to finance assets for start-up, expansion, modernization or purchase of a business. The business's assets, the equity investment and personal guarantees are typically used as security. Some percentage of the value of the assets, for example a maximum of 60% of the appraised value or purchase price of a structure, is used to set the maximum amount of the loan such as a commercial

mortgage. The interest rate, based on the size of the loan and the risk and term, is expressed in terms of the bank's prime lending rate plus some percentage. The maximum term available is usually 5 years.

Branch loan approval limits for Whitehorse branches vary from $30,000 to $75,000. Loans exceeding these amounts are passed to the bank's regional offices in Prince George or Vancouver for approval. The Dawson City branch of CIBC reports through the Whitehorse branch whereas the Watson Lake branch reports directly to Vancouver.

During the study local and regional officials with each of the banks serving the Yukon were interviewed in order to review the policies and procedures used by the banks in approving loans to small businesses. In addition to examining the overall lending practices of the banks, one of the specific objectives of the interviews was to also determine whether the banks had established a separate set of loan criteria for the Yukon, and whether in fact it was more difficult for Yukon based businesses to obtain financing from the banks.

The bank officials interviewed were unanimous in stating that small businesses in the Yukon were not treated differently from those in other parts of Canada, and that the credit guidelines used for approving loans in the Yukon were the same as those used in other regions. A number of the officials did point out, however, that because of the unique characteristics and circumstances of the Yukon, businesses in the Yukon may be more likely to encounter certain types of financing difficulties than businesses in other areas of Canada. For example, a lack of management experience and the lack of a complete or realistic business plan were cited as two major reasons why many small businesses are unable to obtain business loans. While this is a problem which is common to small businesses across Canada, it is a particular problem in the Yukon because of the high percentage of small and very small businesses. Other reasons why small

businesses financing may be more difficult to acquire in the Yukon include the shortage or lack of security required for most loans, the risk associated with a particular industry (such as placer mining), or the general state of the Yukon economy which has been depressed in recent years.

A general summary of the comments received from local bank officials in Whitehorse, and from regional officials in Vancouver, is presented below. The comments have been summarized using the categories presented in Section 2 and reflect the types of comment received. ("X" indicates that issue noted as a problem or concern, "-" indicates not noted.)

	Comments Made by	
	Yukon Branch	Corporate Offices
Business Phase		
- the lack of equity participation by applicant	X	X
- the banks are not interested in loans for working capital or inventories	X	X
Industry Sector		
- the banks do not favour financing		
- inventory based industry	X	X
- restaurants, hotels	X	-
- placer mining equipment	X	-
- bonding problems in the construction industry and credit financing problems	X	-

	Comments Made by	
	Yukon Branch	Corporate Offices
Industry Location		
- it is difficult to service loans in remote areas	X	X
- a lower value is placed on assets outside of Whitehorse as security is based on realizable market value	X	X
- poor physical access to professional services for business creates problems for small business applying for bank financing	X	-
- the lack of mortgage insurance, and the high cost of fire insurance increase the risk of taking buildings as security	X	X
Business Size		
- no specific problems noted.	-	-
Related Issues		
- Education		
- the lack of business planning and management experience on the part of small business	X	X
- the banks and small businesses' lack of awareness of various government programs	X	-
- General		
- the economy is driven by government, and as such hangs on swings in government activity. This adds to the risk in lending as a change in government activity will affect certain small business operations immediately and directly. There are no other sectors to cushion the effect of a change in government activity.	X	-

As the above comments indicate, the local bank officials in Whitehorse tended to be more knowledgeable of small business financing requirements and problems than their regional counterparts in Vancouver. A more detailed analysis of the concerns and issues noted above is presented in Section 4.

3.2.2 Existing Elsewhere

As noted above, the information received from the chartered banks indicated that bank policies and credit guidelines are comparable for all regions of the country. While banking policies may affect one region differently than another, the banks indicated that this is more a reflection of the differences in the business and economic climates between regions rather than the result of a specific policy to grant one region favorable treatment.

3.3 GOVERNMENT ASSISTANCE

Government assistance is provided to small business through two primary channels, either directly through direct government assistance programs, or indirectly through crown corporations or other government funded or sponsored agencies. A variety of mechanisms are used to provide this assistance, including:

- loans
- loan guarantees
- grants or contributions
- financial planning and matching
- equity participation
- tax or other monetary incentives

The programs providing these types of assistance are discussed below.

3.3.1 Currently Available in the Yukon

Government assistance is currently provided by the Yukon Territorial Government, the Federal Government and through Territorial/Federal Agreements.

A general overview and summary of the different government programs is presented in the following tables, while a more detailed discussion of the programs follows.

- Table 3.1 - Type of Capital Provided
- Table 3.2 - Investment and Investor Criteria
- Table 3.3 - Investment Parameters

As shown in Table 3.1 and noted earlier, equity investment is also available from the FBDB and from LEAD corporations, in this case, Dana Naye Venture.

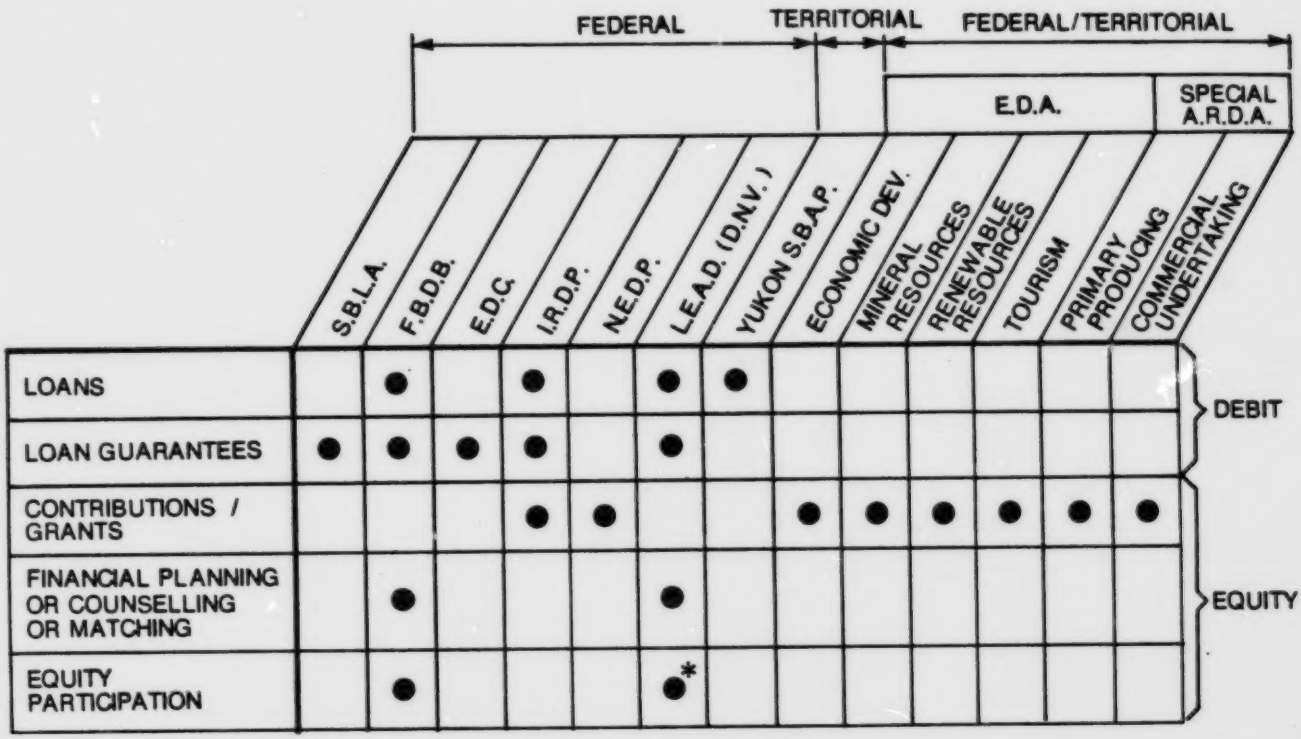
Federal Government

Small Business Loans Act (SBLA) - assistance program

Operated by the Department of Regional Industrial Expansion (DRIE-17), the purpose of the act is to provide new or existing small businesses (businesses with less than 2 million dollars in annual revenue) with capital through loan guarantees (up to 85%). The business must meet standard bank requirements as if no guarantee existed. The total amount available nationally was recently raised from $1.0 to $2.5 billion.

Federal Business Development Bank (FBDB) - crown corporation

The FBDB offers financial services including financial equity matching, investment banking and management services to promote and assist most types of small and medium sized businesses. According to bank representatives in Whitehorse, the bank's current loan commitment is approximately $23 million



* To Incorporated Business

Table 3.1

TYPES OF ASSISTANCE PROVIDED

	FEDERAL							TERRITORIAL	FEDERAL/TERRITORIAL				
									E.D.A.				SPECIAL A.R.D.A.
INVESTMENT	S.B.L.A.	F.B.D.B.	E.D.C.	I.R.D.P.	N.E.D.P.	L.E.A.D. (D.N.V.)	YUKON S.B.A.P.	ECONOMIC DEV.	MINERAL RESOURCES	RENEWABLE RESOURCES	TOURISM	PRIMARY PRODUCING	COMMERCIAL UNDERTAKING
Development/Planning				●				●	●	●	●	●	●
Asset Capital	●	●		●	●	●	●			●	●	●	●
Purchase	●	●		●	●	●	●					●[1]	●[1]
Start-up	●	●		●	●	●	●			●	●	●	
Modernize/Expand	●	●		●	●	●	●					●	●
Working Capital		●			●	●						●	●
Ineligable Sectors	●[2]			●[3]			●[6]					●[7]	●[9]
Ancestory Restrictions					●[4]	●[5]						●[8]	●[8]

1 – will be considered
2 – finance or professions,non–profit, mining, oil, gas, logging excluded
3 – all but processing & manufacturing excluded
4 – Metl, Status or Non–Status Indians only
5 – native owned ventures in Whitehorse, any ownership in other communities
6 – non–profit ineligable
7 – agriculture, fishing or trapping eligi ble
8 – 50% of employees must be Native
9 – recreation or social projects ineligi ble

Table 3.2

INVESTMENT &
INVESTOR CRITERIA

	S.B.L.A.	F.B.D.B.	E.D.C.	I.R.D.P.	N.E.D.P.	L.E.A.D. (D.N.V.)	YUKON S.B.A.P.	E.D.A.	SPECIAL A.R.D.A.
MINIMUM AMOUNT	10,000						5,000 *		
MAXIMUM AMOUNT	100,000 **	500,000		25-50%		25,000	100,000 *	up to 100%	40-100%
MAXIMUM TERM (years)	10	5				5	5		
EQUITY REQUIREMENTS	10-20%	vary				0%	20%		
SEASONAL PAYMENTS		•					•		
INTEREST RATES	bank prime + 1	floating or fixed				bank prime + 1	1/2 FBOB rate		

* or 25% of requirements which ever is lower

** max. 80% fixed costs, 90% on construction, purchase or renovation

Table 3.3

INVESTMENT PARAMETERS

for 112 loans. This is double the amount outstanding in 1983. Approximately one-half of the loans are in Whitehorse, with the other half in the remainder of the territory. In 1985, the bank put on approximately 20 educational training seminars for some 300 participants.

As with the major chartered banks, FBDB officials stated in interviews that the lending criteria which the bank employs in the Yukon are the same as those used in other parts of Canada. However, as noted with the chartered banks, businesses operating in the Yukon may in fact find it more difficult to obtain financing because of local circumstances and the nature of the economy.

Export Development Corporation (EDC)

The EDC provides various insurance protection schemes to promote the development of export trade.

Industrial and Regional Development Program (IRDP)

Operated by DRIE (-9), the program is designed to promote regional and industrial development and combat regional disparities by making funding available for manufacturing or processing industry which would not otherwise be viable. The program is scheduled to be phased out, with a plan to transfer to the provinces and territories the portion of the program relating to small and medium sized businesses.

Native Economic Development Program (NEDP)

Again, operated by DRIE (-14) the program is intended to assist native people in the development of economic self-reliance by funding

- native economic and financial institutions
- community based economic development
- special projects

Indian and Northern Affairs also offer a Economic Development Program for native people.

Local Employment and Assistance Development Program (LEAD)

The Canada Employment and Immigration Commission (CEIC-8) funds local economic development corporations which then fund private enterprise projects to increase the number of permanent jobs in localities of chronically high unemployment. An example of the program follows.

Dana Naye Ventures (non-profit LEAD Corporation)

Sponsored by the Yukon Indian Development Corporation (YIDC), the program is intended to increase the number of job opportunities for Yukon Indian people and for residents of rural areas. It is also intended to increase the number of profitable Yukon Indian and rural businesses and to assist in the development of management skills for Yukon Indians. The applicant must have been refused by the FBDB and must have obtained third party assistance.

General

The federal government also offers a variety of tax and monetary incentive programs to assist small business and a number of incentive programs for particular industry sectors to aid specific activities within those sectors.

Territorial Government

Yukon Small Business Assistance Program (SBAP)

The purpose of the program is to stimulate the small business community through loans for new ventures for expansion, and to supplement equity and bank financing to ensure projects proceed. Small business is defined as a firm with less than 2 million dollars in annual gross revenue and less than 100 employees.

One Stop Business Shop

Also known as the Small Business Development Office, the office deals with enquiries for financial assistance for small business. It is the primary access route for the Yukon Small Business Assistance Program, providing assistance in preparing applications for funding.

Territorial/Federal Agreements

Canada/Yukon Economic Development Agreement (EDA)

This is the master economic development agreement which is in turn comprised of five sub-agreements. Programs are cost shared between the federal and territorial governments with the share of funding varying by sub-agreement. The program provide funds for economic development planning (feasibility or planning studies), mineral resources (geological surveys and geochemical mapping), renewable resources (feasibility, planning and demonstration projects in fisheries, forests, agricultural wildlife and wildlife projects), tourism projects (consulting, seminars for industry support, promotion material for market or product development, feasibility studies and infrastructure development) and support of mining industry recovery.

Special Agricultural and Rural Development Act (Special ARDA)

Funded 100% by the federal government for status Indians and 50/50 for others, the program is intended to assist residents of remote and northern areas (in particular natives) to improve their economic circumstances. The program provides funds for primary producing activities and commercial undertakings.

Potential overlaps between various federal and territorial governments are shown on the attached Figure 3.1. These overlaps are as identified in the Canada/Yukon Economic Development Agreement Programs Manual. Overlaps are not necessarily duplication but rather areas of some commonality in funding.

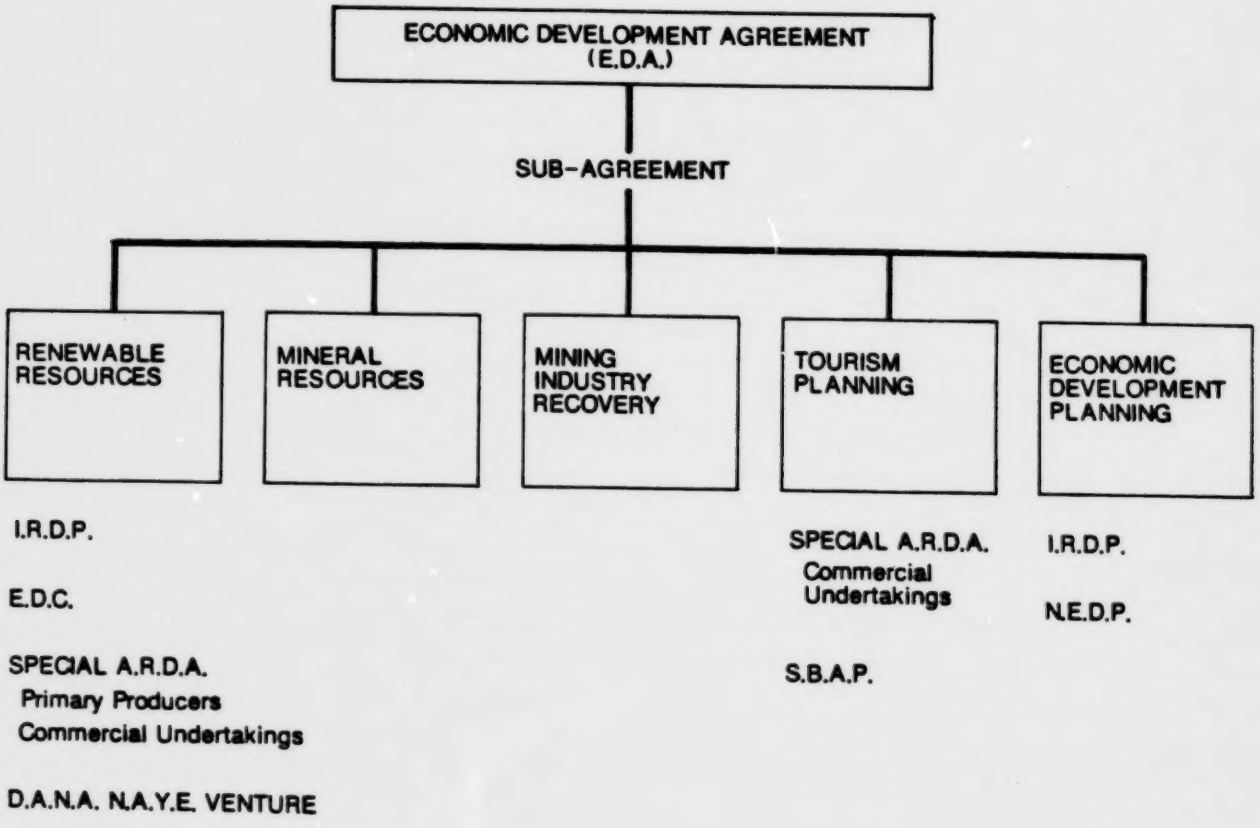


Figure 3.1

POTENTIAL GOVERNMENT PROGRAM OVERLAPS

3.3.2 Existing Elsewhere

Other provinces have various programs and crown corporations that provide debt and equity financing for small business. The general types are:

Public companies (Crown Corporations)

- development or venture capital programs

Assistance programs

- small business assistance programs
- northern development assistance programs for small business
- other specialized (industry) programs

Institutions

- "banks" or provincially established financial institutions
- venture capital corporations (discussed earlier).

The following discussion provides a brief description of examples of each type of government program.

Public Companies (Crown Corporations)

Venture capital companies, not to be confused with the venture capital corporations discussed earlier, are government funded public companies (crown corporations). Assistance is typically provided when a higher degree of risk is involved in investments than financial institutions are prepared to make, and investment is often made in high growth projects which will be profitable and beneficial to economic development within a defined area.

Generally the minimum committment will be in the order of $500,000 and investment is primarily in the form of shares or other types of financing such as

debt convertible to shares. Venture capital companies purchase primarily minority ownership interests in new and young companies and work closely with them to help them grow.

Assistance Programs

The provinces of Saskatchewan, Manitoba and Newfoundland all offer assistance programs for economic development in northern or remote areas which provide funding for small business.

Saskatchewan has the Northern Saskatchewan Revolving Fund. The Fund was started in the early 1970's as a loan fund to encourage high risk development in remote areas and native development. There was no expectation of recouping loans and in fact a very high failure rate (30% to 40%) was experienced. Actual funds are available from other departments, and the Revolving Fund staff act as intermediaries on behalf of the applicant.

Currently, loans and loan guarantees are given on more low to medium risk projects for resource based and service businesses, but not on real estate or speculative investments. Funding is available for new businesses, expansion, modernization (for purchase only if financing is required to sustain the business). An applicant must have lived in Saskatchewan for 15 years or half of his or her lifetime. The Fund provides assistance to a maximum of $300,000 ($50,000 + $30,000 per job), a minimum of $1,000, and for a maximum 10 year term. The Fund is now 90-95% current and seasonal repayment is allowed. Interest rates vary from 6% simple interest for fishing and trapping, to 10% simple interest for commercial, logging and manufacturing ventures.

The Revolving Fund is an example of a government assistance program which, in the beginning, faced high losses by financing high risk projects which would not have otherwise gone ahead. It has gone through a transition, partially because of policy changes and partially due to the development of a more stable base.

Manitoba has a Community Economic Development Fund (crown corporation) to encourage development. The Fund, which is aimed at economic development in more remote areas, provides loans and loan guarantees for small and medium sized business. Funding is not available for ranching or farming. Up to a maximum $300,000 with a 10 year term is available for assets or working capital, but not development capital. Seasonal repayment is allowed and the interest rate is set equal to the Bank of Canada prime rate. The fund is 80% current.

Newfoundland has a Rural Development Authority which attempts to stimulate economic growth through grants, loans and equity financing for small business and resource based industry. The funding is provided for medium to high risk projects and is limited to the manufacturing, processing, and tourism industries. No retail or commercial businesses are eligible unless they support the above noted sectors. The fund is comprised of two source grants from the DRIE program and provincial loans. The maximum loan is $25,000, and the grant is up to a $25,000 maximum.

A 20% equity investment is required to obtain funding for asset or working capital. The interest rate equals the commercial prime bank rate minus 3%. The maximum term allowed is 15 years and seasonal repayment is allowed. The fund is 55% current, and similar to other programs, financing high risk projects tends to lead to significant failures.

Institutions

As an alternative and complement to the banking system, the Province of Alberta has established the Alberta Treasury Branch system. The Alberta Treasury Branch, and its designated agents, provide the public with a full range of financial services which are normally provided by full service chartered banks.

These services include:

- Deposit Accounts
- Investment Programs
- Loan Services
  - including personal, commercial and mortgage loans
- Money Programs
  - including travellers cheques, collections, commercial letters of credit and Canada Savings Bonds.
- Other Services
  - including utility bills, motor vehicle and operator's licenses, and tax payments.
- Special Programs

The Treasury Branch has grown into a major financial institution, in 1985 serving 218 communities and having assets of $4.2 billion. These services are offered through both branches and certified agents.

One of the main objectives of the Alberta Government in establishing the Treasury Branch system was the Government's desire to have competitive financial services provided in as many communities as possible. These services are provided through a system of full service branches located in larger communities, and designated agencies in smaller communities. While approximately one third of all Treasury Branch branches and agencies are the only financial service in the communities which they serve, the Treasury Branch system does compete in many communities with chartered banks and other financial institutions.

Other Assistance

Canadian provincial governments have established a variety of assistance programs which are designed to improve the quality of small business management. One program which has been particularly well received is the Management Assistance Program which has been in operation in Alberta for over

8 years. Similar programs also exist in British Columbia, Saskatchewan and other provinces.

The purpose of the Management Assistance Program (MAP) is to provide small businesses, particularly those in rural areas, with professional consultant services to improve the management and operation of their businesses. Organized through local Chambers of Commerce, consultant teams meet with individual businesses to review and evaluate their operation, and to make recommendations on how management and profitability can be improved. The consultant team is normally compised of general management, financial and retailing specialists.

4.0 FINANCING PROBLEMS AND OPPORTUNITIES

The report has to this point focused on the two key elements of the business financing equation, namely the requirement for financing on the part of the business community, and the availability of financing from private and public sector sources of capital. The next logical step in the analysis is to bring together these two elements in order to identify those issues which must be addressed if access to capital is to be improved, and to identify and evaluate possible solutions to the financing problems and difficulties which have been noted.

It is important to recognize that one of the primary objectives of the following section is to identify and evaluate the full range of possible financing solutions and options. From the review and evaluation of these options, it is expected that the Yukon Territorial Government will be better able to determine which options would best meet its objectives and would be compatible with other government policies and programs. The Consultant Team's recommendations as to which of these options should be pursued further are presented in Section 5 of this report.

4.1 KEY ISSUES

The comments presented in Section 2 outlined a number of the problems and difficulties which Yukon businesses face in their efforts to obtain business financing. While many of the comments highlighted significant problems, it is important to recognize that these comments represent one viewpoint and may not be a totally accurate or unbiased perception of the problem. If this study is to propose effective solutions for the financing difficulties faced by Yukon businesses, it is important the issues affecting business financing be clearly identified, and that these solutions address the real problem and not a symptom or perception of that problem.

Based on the comments received from the Yukon business and financial community, and from input provided by the Study Advisory Committee, the study

has identified a number of key issues, problems and difficulties which affect access to capital in the Yukon. Briefly, the major concerns identified were as follows:

Rural Development: there appears to be a general concensus that rural businesses in the Yukon face special difficulties in accessing capital. These difficulties include insufficient equity, problems in obtaining debt financing, a lack of business training, and specific constraints such as the difficulty of obtaining insurance and the inability to secure long term leases for businesses operating on Crown owned land.

Education and Training: a frequent comment related to the concern that many small business owners and managers lack the education and training required to efficiently operate a small business.

Native Owned Businesses: it was generally agreed that native owned businesses are more likely to face problems in accessing capital, and that special consideration should be given to the requirements of native businesses.

Lack of Security: even financially viable businesses reported difficulties in providing the security required to obtain debt financing.

Business Phase: there is a general concensus that financing requirements can vary significantly depending upon the phase of business development. While it was agreed that emerging or developing businesses faced the greatest difficulties in accessing capital, specific problems were also noted for expanding and mature businesses.

Financial Services in Rural Areas: many rural businesses expressed concern over the lack of financial services outside of Whitehorse, and the difficulty and cost of travelling to Whitehorse to access banks or obtain financing.

Flexibility of Debt Repayment; a number of businesses and individuals indicated a need for flexible terms in the repayment of loans.

Non-Financial Issues: it was noted that there are a number of non-financial issues which limit the ability of businesses to obtain financing. These issues include: the lack of commercial mortgage insurance in the Yukon; the difficulty experienced by contractors in obtaining bonding; the difficulty of obtaining mortgages for developments located on leased Crown land; and problems experienced by forestry companies who are only able to obtain short term timber leases.

As the reader will note, the above list includes a wide range of issues which to some extent impacts on virtually all Yukon businesses. Also, in many instances the problems are inter-related and have a common cause such as a lack of equity investment, a lack of adequate security, or the need for more convenient access to banks and other financial institutions.

An anslysis of the concerns and difficulties discussed above indicated that most business financing problems can be associated with one of six key business financing issues. These include:

- Equity Requirements
- Debt Financing
- Business Training and Education
- Business Advisory Services
- Physical Access to Financial Institutions
- Other Issues

The remainder of this section is devoted to a review of the nature of the problems associated with these issues, and an examination of possible solutions.

4.2 EQUITY REQUIREMENTS

Problems/Difficulties

Comments received from both the business and financial communities emphasized the important role which equity investment plays in the growth and development of small businesses. The comments also indicated, however, that many businesses may not fully appreciate the importance of a strong equity base and may in fact place an over-reliance on other sources of capital, namely debt financing and government assistance.

Examining the issue of business equity requirements, an important conclusion drawn from this and other studies was that the ability of businesses to obtain both equity and debt financing can vary significantly depending upon the phase of business development. Generally, established firms which are either expanding or relatively mature indicated that they could not report significant problems in acquiring necessary financing. In most cases these firms had developed a long-term relationship with the banking community and were able to obtain financing, providing of course that the business was viable.

In sharp contrast, many businesses or individuals which might be considered in the emerging or developing stage did report that acquiring financing was a major concern. While it is difficult to generalize, these firms tended to be quite small in size, and many would be considered as marginally profitable and as a relatively high risk investment. As noted in the introduction to Section 2, the problems encountered by smaller firms are important since nearly 90% of Yukon businesses are very small firms with five or fewer employees.

Based on the above comments, two important conclusions can be drawn:

- first, that to a large extent problems in accessing capital tend to be reported primarily by smaller firms which are in the emerging or developing phase, and,

- secondly, that debt may not be the best means of providing these smaller firms with financing.

The second conclusion is supported by the fact that of all businesses, the smaller firms tend to be the least able to attract or support debt financing. With relatively little equity, smaller firms often have difficulty meeting the equity and security requirements set out by banks and other lending institutions (including governments). As marginally profitable businesses, smaller firms are the least able to support the interest costs and repayment schedules associated with debt. Furthermore, as relatively high risk investments, many small businesses tend to be the least able to qualify for debt financing.

To meet their financing requirements, many emerging and developing businesses require "patient" capital, or in other words, some form of equity investment. The prime advantages of equity as opposed to debt financing are that it can significantly reduce the cost of capital, it can reduce cash flow requirements, and it is much better suited to high risk investments which hold the promise of significant future profits.

The following discussion concentrates on options which assist small businesses attempting to attract equity investment. Options for improving access to debt financing are discussed in Section 4.3.

Options

Reflecting the comments discussed above, the principal options considered are those which would encourage some form of equity investment in businesses, particularly smaller businesses. The major options considered include:

1. Establishment of a government sponsored venture capital pool.

2. Development of small business equity corporations.

3. Development of incentives for investing in the shares of Yukon based businesses.

4. Development of incentives to encourage individual private investors to invest equity capital in Yukon businesses.

The relative advantages and disadvantages of these options are discussed below.

Evaluation

The development of a **government sponsored venture capital company**, similar to those established in Alberta and British Columbia, would appear to have a limited application in the Yukon. This does not, however, rule out a "made in the Yukon" application of the government sponsored venture capital corporation. It is important to recognize how a typical government sponsored venture capital company operates, such as Vencap in Alberta, and examine how this concept may be adopted to serve the needs of the Yukon.

Briefly examining the Vencap operation in Alberta, it should be noted that this type of venture capital company tends to restrict its investments to larger, more established companies, with the average equity investment (for Vencap) ranging from a minimum of $200,000 to a maximum of $10 million. Because of the relatively large size of the average investment, a venture capital company would not appear to be a particularly useful vehicle for financing Yukon small businesses, the large majority of which would likely have total assets of less than $50,000.

The structure of the typical large venture capital firm also restricts its ability to finance smaller businesses. The venture capital firms tend to have relatively small staffs, and because of this limited staff capability, tend to deal only with businesses which are well established and have a relatively sophisticated business plan. They are not equipped to offer management advice and "hold the hand" of a smaller business in which they might invest.

Recognizing the limitations of a more traditional type of venture capital company, the Yukon Territorial Government could decide to sponsor the creation of a venture capital company which is better suited to the needs of the Yukon, that is, the needs of small business. It has been suggested that the Territorial Government could become directly involved as a venture capitalist, utilizing a vehicle such as the newly created Yukon Development Corporation, or by funnelling investment capital through an intermediary such as Dana Naye Ventures. Both of these options could be particularly effective in directing investment to regions or sectors of the economy viewed as having the greatest need, an obvious example being small businesses located in rural areas.

It should be noted, however, that there are some important issues which would have to be resolved prior to proceeding with this option. Specifically, it would have to be decided to what extent the venture capital company would become actively involved in assisting and directing firms in which it invests. As discussed above, the more typical government funded venture capital companies tend to limit their involvement in the mangement and operation of businesses in which they invest. A second concern is more political in nature and relates to the risk associated with providing venture capital. If a government sponsored venture capital company were to target smaller businesses, and especially those in rural areas, it must be understood that there exists the possibility of significant losses. This is particularly true given the fact that many smaller businesses, and businesses in rural areas, tend to be marginally profitable and higher risk ventures.

Privately financed **small business equity corporations** (SBEC) such as those established in Alberta, tend to face many of the same restrictions outlined for government sponsored venture capital companies. The larger public SBEC's are virtually identical to larger government sponsored venture capital companies, and face many of the same restrictions. The privately financed SBEC's tend to be smaller, but again they have little incentive to invest funds in small business. In order to maximize their return on investment, SBEC's attempt to minimize their overheads and do this by maintaining as few staff (if any) as possible, and by restricting their investment portfolio to a small number of relatively large

investments. They are generally not prepared to accept the high risks associated with many small businesses, and they do not have the capability to provide the management support which many small businesses might require.

One option which could be considered for the Yukon would be to allow the creation of SBEC's with lower required levels of investment. The minimum $100,000 investment required for Alberta based SBEC's may not be appropriate for the Yukon for a number of reasons: it requires either that the SBEC investors contribute a relatively large sum of money, or that a relatively large number of investors be included in order to reach the $100,000 minimum; and the $100,000 minimum encourages the placing of larger investments. Reducing the minimum investment to a figure of $20,000 to $25,000 could make SBEC's much easier to establish, and would encourage investments into smaller businesses. It is important to note, however, that establishing and maintaining an SBEC is complex process involving substantial legal and financial expertise. It would be necessary to examine the feasibility of smaller SBEC's in light of the legal, financial and administrative costs associated with this option.

The option of encouraging **investment into shares of Yukon based companies**, as is done in Alberta under the Alberta Share Purchase Plan, would appear to have very little potential in the Yukon. Few Yukon based companies, and virtually no small businesses, are in the position to issue publicly traded shares and therefore, would benefit little from such a program.

One option which would appear to have significant potential is a program which would encourage **private investors to invest in Yukon based businesses.** This program would be similar to the small business equity corporation program in that it would offer a grant to investors who invest in qualifying Yukon small businesses. It would differ from an SBEC in a number of important respects:

- there would be no, or a relatively low, limit on the amount an investor could contribute. In contrast, current SBEC's must have a minimum of $100,000 in equity investment.

- individuals would be able to invest in private businesses, and there would be a relatively simple procedure for applying for and obtaining an investment grant. A relatively simple certificate of investment could be developed.

- the percentage grant would be calculated to actively encourage investment in small, and possibly high risk, businesses. It is expected that a grant somewhat higher than the 30% offered for SBEC's would be required, and the amount of the grant could be made to vary depending on the level of risk, the location of the business, or other factors.

A program such as this could be extremely successful in encouraging private investors, many of whom may not have large amounts available for investment, to invest in small businesses with relatively modest capital requirements in many cases. This program would also complement a SBEC program which would include lower minimum investment levels.

One final point should be made regarding the options discussed above. Each of the options involves providing businesses with additional equity. One of the implications of these options is that in most cases it will also mean that the owner will have to share ownership and control of what may have previously been a sole proprietorship or a family owned business. The sharing of control may not always be welcomed by the business owner, but on the other hand, it is unlikely that many investors would be willing to invest equity capital without receiving some measure of control over their investment.

4.3 DEBT FINANCING

Problems/Difficulties

Debt financing is the second important source of capital for most Yukon businesses, and reasonable access to debt financing is a key factor determining the ability of businesses to grow and develop. Through discussions with both

Yukon businesses and financial institutions serving the Yukon, a number of problems and difficulties related to debt financing were noted. It is important to point out, however, that many of the problems described were not considered to be unique to the Yukon, but common to small businesses located throughout Canada. The need for equity investment, the difficulty in obtaining adequate security for loans, the ability of a small business to operate profitably and with adequate cash flow, and the need for sound management were identified as issues which must be faced by all small businesses, regardless of their location. Additionally, the inherent riskiness of many small businesses is not unique to the Yukon although, because of the large percentage of small businesses in the North, it may well be a problem more frequently encountered in the Yukon than in other areas of Canada.

Recognizing the range of problems which small businesses face in their efforts to obtain debt financing, the solutions and options discussed below focus on either those issues which are unique to the Yukon, or those issues which can be successfully addressed at the territorial level. Issues which have been identified as requiring special attention include:

- the need for adequate equity investment on the part of the business principals,
- the need for adequate security to support the business's debt requirements,
- the need for flexible repayment terms which correspond to a business's ability to repay debt,
- the need to address special concerns such as the lack of commercial mortgage insurance, the difficulty of securing contractor bonding, and the financing of assets constructed on Crown owned leased land.

The need for adequate equity was discussed in detail in the preceeding section and will not be discussed further. The special concerns identified above are discussed in detail in Section 4.7

Given the high level of risk associated with many small business ventures, it is understandable that most banks and financial institutions require a high level of

realizable security in support of loans which they issue. An emphasis should be placed on "realizable" since one of the major issues identified during the study was the difference between the cost of an asset, or what the owner thinks that asset is worth, and the value which the banks are willing to place on that asset for the purposes of security. This is a particularly important problem in many rural areas of the Yukon where there is virtually no well-defined market, and where it is extremely difficult for banks to determine what the actual realizable value of an asset would be if the bank acquired the asset as a result of a failed loan. In instances such as this, the loan applicant may have invested a considerable amount of money in the assets which he is willing to place as security, but for the purposes of loan security the bank will agree to value the asset at only a fraction of its initial cost or possible resale value. This latter practise of providing a loan for only a portion of the appraised value of the security is often referred to as "margining" and reflects the conservative position of the banks in establishing loan levels.

The need for flexible repayment terms on the part of businesses appears to be more of a perceived problem than a real one. Virtually all of the banks contacted indicated that they would be willing to negotiate a flexible repayment of loans, provided that the loan applicant is able to meet the other loan criteria (e.g. security, ability to pay). The problem in this instance appears to be that many small businesses are not aware that flexible repayment terms are available, and simply do not request this option.

Options

Based on the above comments, it would appear that there is more than one strategy which may be pursued in an effort to improve business access to debt financing. The two main strategies would be:

> **Existing Sources of Debt Financing:** the first strategy would consist of options which would assist businesses in obtaining debt financing from conventional sources, primarily banks and other private sector tenders. The major options under this strategy would be loan guarantees, flexible repayment provisions, and possibly reduced interest rate loans.

Government Funded Debt Financing: the second strategy would involve the Yukon Territorial Government becoming directly involved in providing debt financing. As debt financing is currently available under a number of territorial and federal government programs, the main objective of this strategy would be to target loan funds at regions or industry sectors which are viewed as having the greatest need. A prime example would be a loans program targeted at small businesses located in rural areas. These options are discussed below.

Under the strategy of utilizing existing private sector sources of capital, the first option would involve an **expanded program of loan guarantees,** an option which could serve as an effective solution to the problem of inadequate loan security.

Under the present Small Business Loans Act, the government will provide a loan guarantee of up to 85 percent of qualifying loans up to a maximum of $100,000 (thus, a maximum $85,000 loan guarantee). While this guarantee limit is adequate for many small businesses in the Yukon, there are also a significant number of businesses which have security requirements in excess of this amount.

Under the proposed option, there would be no change in the procedure for providing loan guarantees up to the $100,000 loan limit. However, for businesses which require a guarantee in excess of this amount, loan guarantees could be provided on a special approval basis. Such a program could be administered in conjunction with the Small Business Loan Program Advisory Board, with that Board reviewing guarantee applications and making recommendations on the amount of guarantee to be provided. The program may or may not have a maximum limit, and the amount of the guarantee would be determined after consideration of such factors as the purpose of the loan, the amount of risk, and the location of the business.

Other options which utilize existing private sector lenders include programs involving **flexible loan repayment terms** and **reduced interest rates loans.** These two options are discussed further below.

Under the strategy of direct government funded debt financing, there would appear to be two primary options. The first would be to use an **existing program** such as the Small Business Loan Program Advisory Board. In this case, the Program would be provided with increased funding and would be given a specific mandate to direct funding to a priority area such as rural small businesses. A second option would be the **use of an intermediary** such as Dana Naye Ventures, which could be provided with funding and given a specific mandate.

Evaluation

An **expanded program of loan guarantees** could be an effective solution to many of the financing problems noted. In instances where a small business is viable but simply lacks the necessary assets for loan security, an expanded guarantee program would provide the business with the required financing at minimal cost and risk to the government. In instances where assets used as security are valued low relative to their acquisition cost or perhaps their true realizable value, the program would provide the additional security required.

There would be some disadvantages and possible problems associated with such a program. One concern is that the banks could see the program as a means of limiting their risk, and would therefore automatically refuse loan applications which would normally qualify (and thereby encourage the loan applicant to request a loan guarantee). If loan guarantees are readily available, it could also encourage the lenders to support loans which are riskier and have a higher chance of default. A second area of concern with respect to this option is that an expanded program of loan guarantees would primarily benefit larger firms since the present Small Business Loans Act limit of $100,000 should be sufficient for most small businesses. The program could, however, be very effective in assisting firms in rural areas which often encounter problems with load security, or firms that are forced with load security, or firms that are forced to operate with only short term leases or timber cutting rights. The implication of this program is that if guarantees were to be made more readily available, it would

be necessary to relax the criteria by which loan guarantees are approved. The risk with this option is that if guarantee criteria are relaxed, the possibility of loan defaults could rise significantly.

With respect to the option of **flexible loan repayment terms**, it was noted earlier that most banks reported that they are willing to offer flexible repayment of loans, provided that the business is considered viable and that the loan is considered secure. As for the option of **reduced interest rate loans**, this option may reduce the cost of borrowing for businesses, and thereby make those businesses more viable, but overall it is unlikely that it would significantly improve access to capital.

With respect to government sponsored lending programs, the options of expanding **existing programs** or the **use of an intermediary** such as Dana Naye Ventures could both provide an effective means of targeting loan funds. In both cases existing organizations could be used, thereby avoiding the creation of any new agencies and funds could be targeted at specific areas such as rural small businesses.

Regardless of which of the above options is adopted, it bears repeating that while there may be many economic and social benefits associated with improved access to debt financing, there are also risks. These risks are that as loan programs expand and become less restrictive, these will be an increasing likelihood of loan defaults which in turn will be a cost to government. On a broader level, if access to capital is relaxed to too great an extent, there is a danger that resources will not be allocated to the economy's best advantage. Unless there are overriding economic or social considerations, any programs which encourage or support non-viable businesses must be seriously questioned.

4.4 BUSINESS TRAINING AND EDUCATION

Problems/Difficulties

One of the issues most often discussed during the study, particularly by financial institutions, was the need for more training and education on the part of small business owners and management. Many of the financial institutions interviewed indicated that one of the principal reasons why small businesses were not able to obtain financing was their inability to prepare a sound business plan in support of their request for capital. Also, in many cases the financial institutions were not satisfied that management had the skills required to successfully operate the business. Without these two key ingredients, a sound business plan and experienced and qualified management, businesses will find it very difficult to obtain financing, regardless of whether they are located in the Yukon or in any other part of Canada.

Options

Recognizing the need for improved training and education on the part of small business management, a number of options have been identified;

1) Formal training programs, such as those offered by Yukon College, providing management with business and management skills.

2) Management and business seminars such as those sponsored by the FBDB and local Chambers of Commerce.

3) Video tapes which provide instruction on various business topics, and made available through agencies such as the FBDB and the Chambers of Commerce.

Each of these options is discussed below.

Evaluation

Formal training programs in management, business and other trades and professions are an obvious means of improving the education and training of small business owners and managers. The prime advantage of this approach is that it provides an indepth education into the various areas which are required for the successful operation of a small business. These types of educational programs are currently provided by a number of institutions including trade schools, community colleges such as Yukon College, and universities. It should also be noted that in other areas such as British Columbia, curriculums have been developed to assist small business managers in preparing business plans.

The major drawback of formal training programs is that many small business owners and managers simply do not have the time, financial resources, or the desire to enroll in these types of programs. While formal training programs will normally offer the best training, for many small business owners and managers, they are simply not a realistic option.

The **management and business seminars** currently offered by organizations such as the FBDB and local Chambers of Commerce serve a specific educational purpose, although there are questions regarding their true usefulness. Some of the concerns raised regarding these seminars include:

- they tend to be somewhat general and do not provide the detailed information that some participants require

- even when held in rural areas, many of the individuals in most need of further education or training are either unable or unwilling to attend

- there is a question of how much information and training can be provided in a one day or half day seminar

In spite of these concerns, there is no question that these seminars do provide a useful function and provide assistance to small businessmen which would not be available otherwise.

An interesting option involves the preparation of **video tape instruction seminars** which are essentially management seminars stored on video tape. While interaction between the student and instructor is limited, this option may be useful for businessmen unable to attend seminars due to time restrictions or their location in remote areas. The Business Development Office has begun to prepare a series of such videotapes, and over a period of time it may be possible to make these videotapes available on a loan or rental basis through local Chambers of Commerce, financial institutions or government agencies.

4.5 BUSINESS ADVISORY SERVICES

Problems/Difficulties

Apart from the business educational and training needs discussed above, it is expected that there will be a continuing requirement for business advisory services which respond to the unique needs of individual businesses. This requirement results partially from the fact that no one business will always have the full range of management skills necessary to effectively operate a business, and from the fact that there will continue to be small business owners and managers who lack necessary skills regardless of how many education and training programs are offered. While business training and advisory services are discussed separately here, it is important to recognize that each complements the other. As will be noted below, one of the objectives of most business advisory services is to provide the businessman with the knowledge required to manage his business in the future.

Options

The range of options identified for business advisory services includes:

1) Direct advisory services provided by such organizations as the FBDB and the Business Development Office.

2) Individual consulting services provided thorough the CASE consulting program.

3) Individual services provided through a joint consulting program such as the Management Assistance Program offered in Alberta.

4) Development of local advisory programs, through a sponsoring organization such as the Chamber of Commerce, which would involve local businessmen providing advisory services to growing or developing businesses.

The relative merits of each of these options is discussed below.

Evaluation

The **direct advisory services** offered by the FBDB, the Business Development Office and other organizations such as Dana Naye Ventures provide small businesses with a wide range of financial and management services required for financial planning and for obtaining debt and equity financing. The services provided include:

- packaging and intermediation
- financial matchmaking
- programmed do-it-yourself kits
- strategic planning

In the Yukon, the advisory organizations also play an important role in helping businesses identify appropriate government funding and assistance programs, and in preparing applications for those programs.

It should be stressed that as part of the advisory process, each of the above organizations attempts to educate the business client. Although the FBDB and other organizations offer a variety of business education programs which were discussed earlier, the different advisory programs provide one of the most effective means of educating business and improving business skills.

Although there is no question that the various advisory programs play an important role in assisting and advising small business, there are also criticisms of the organization and efficiency of these programs. One specific criticism relates to what appears to be a duplication, or at least a large degree of overlap, in the roles and services provided by the FBDB, the Business Development Office, and to a lesser extent, organizations such as Dana Naye Ventures. Most small businesses interviewed during the study indicated that they could not really distinguish any major differences in the services offered by the FBDB and the Business Development Office, and if anything, were confused as to which organization they should approach. Similarily, while Dana Naye Ventures and government departments which administer specific programs were viewed as having a more defined mandate, there was a common perception of at least some duplication of services.

Directly related to the issue of duplication of services is the question of whether or not these services could be provided more efficiently and perhaps more effectively. The Northern Affairs Program office of INAC recently estimated that between the FBDB, the Business Development Office, and the various government and native programs, there are now an equivalent of approximately 26 staff assigned to business programming in the Yukon. A strong argument could be made for reviewing the feasibility and value of consolidating these resources and establishing a single organization through which all small businesses could access government or government sponsored programs. The advantages of combining these resources into a single organization would inclue:

- a reduction in the confusion resulting from a number of organizations offering the same or similar services.

- with the elimination of duplication, a more efficient allocation of staff resources. This should allow greater specialization and the development of specific staff expertise (e.g., industry specialists).

- with reduced duplication, it should also be possible to place more staff in rural areas without increasing overall staff requirements.

The one obvious drawback of this alternative would be the complexity and difficulty of amalgamating programs which are currently the responsibility of a number of different government departments and organizations.

The **CASE program** sponsored by the FBDB offers a unique "hands on" type of service which appears to have been very well received by those utilizing the program. One of the criticisms of the CASE program is that most of the CASE officers are from outside of the Yukon, and that this increases both the cost and inconvenience of using CASE assistance. One of the suggestions made by the Northern Affairs Program office is the Yukon Government should consider establishing an assistance program which compensates for the additional cost of providing CASE counselling services in the Yukon (i.e. travel costs, additional CASE officer time spent travelling). A second criticism of the CASE program, and one which is not unique to the Yukon, is that the program tends to rely on retired or semi-retired businessmen who may not be fully up-to-date with current business practices and technology, or that the CASE counsellor may not have expertise which is directly applicable to the business he is assisting. This latter criticism would not appear to be that significant as most businesses using CASE services were very positive about the program.

Programs such as the **Management Assistance Program (MAP)**, examples of which exist in British Columbia, Alberta and Saskatchewan, are somewhat similar to the CASE program in that they provide expert consultants who work with the businessman on site. The MAP approach employs a consultant team to provide businesses with expert advice in such areas as accounting, management and marketing, all at a minimal cost to the businessman.

The MAP approach has been very well received where it has been implemented, but it should be noted that a program such as this cannot be expected to replace the service provided by the FBDB or the Business Development Office. The latter are "on call" and are available to businesses when and as required, while a MAP type of service is periodic and will not always be available at the time it is required.

The final option is rather unique in that it would involve the provision of **business advisory services by local businessmen.** Sponsored by a local organization such as the Chamber of Commerce, a volunteer group of local businessmen would be formed to provide management and financial advice to small businesses developing in that community. This option has a number of very attractive features including the use of local business expertise, and the minimal amount of government involvement. It should be noted that a program such as this would probably be limited to very small business as it is unlikely that larger, more well established firms would require or even be willing to request this type of advice.

4.6 PHYSICAL ACCESS TO FINANCIAL INSTITUTIONS

Problems/Difficulties

For businesses located in remote and rural areas, the lack of a local financial institution presents a number of difficulties. In addition to increasing the inconvenience, time and cost associated with travelling to and from the bank, it was generally conceded that businesses in more remote areas do have greater difficulty in communicating with the financial institutions and ensuring that their needs are understood and catered to.

Options

To improve the physical access to financial institutions, that is, to bring banking services into rural and more remote communities, there are a number of possible options which could be implemented. These include:

1) Providing direct subsidies to encourage banks to locate branches in rural areas

2) Providing incentives to encourage bankers to locate branches in rural areas

3) The Yukon Territorial Government establishing its own financial institution which would establish branches in rural areas, much like the Alberta Treasury Branch system

4) Developing a system of local agents in rural areas who would be authorized to provide such basic services as cheque cashing and receipt of deposits

Evaluation

The Yukon Territorial Government has already explored the possibility of providing a **direct subsidy to banks** to encourage the opening of local branches in rural areas. Generally the response from the banking community was unenthusiastic, and in the case where a proposal was received, the cost was judged to be unacceptably high.

The Yukon Government is now considering some means by which banks could be provided with an **incentive to encourage the establishment of local branches** in rural areas. The Canadian Imperial Bank of Commerce (CIBC) currently provides banking services for the Yukon Territorial Government and is the only bank with branches outside Whitehorse. It is generally recognized that without the banking business of the Yukon Government, the CIBC would seriously consider the feasibility of maintaining branches in Watson Lake and Dawson. A second alternative considered is that the Yukon Government may contract its investment portfolio to a chartered bank, and in return that bank would establish branches in one or more rural communities (Faro and Mayo would be prime

candidates). While the advantages of this options are obvious, the cost in terms of an indirect subsidy must still be determined. The details of this option are currently under review by the Yukon Government.

The **establishment of a government owned financial institution,** similar to the Alberta Treasury Branch system, would represent a major policy decision on the part of the Yukon Government. This option could offer an effective means of providing financial services, both in the rural and more developed areas of the Yukon. There are, however, two major concerns associated with this option. The first concern is philosophical in nature and relates to what would be a decision by the Yukon Government to become much more directly involved in the provision of financial services within the Yukon. This move would run counter to the body of opinion calling for a reduced, not an increased, government role in the economy. A second important concern relates to the cost of establishing a new financial institution, particularly one whose mandate would be to operate branches which are uneconomic for the major banks. Although the Alberta Treasury Branch system appears to well organized and relatively cost effective, this option would have to be closely examined before a decision would be made to establish a government owned financial institution.

The Territorial Government is giving preliminary consideration to **licensing local agents in remote communities** to conduct some level of banking services on its behalf. This service would only be provided in communities without any local chartered banking services. The agent would be an existing business owner who, presumably for a fee or commission, would provide the service. The service provided in a community could range from simple counter deposit/withdrawal services, to full banking services (the latter would probably require a full facility rather than an agency arrangement). This option assumes that the local agents would act as representatives of the Territorial Government, but a second alternative would be to have the chartered banks establish an agent system in rural communities. The Treasury Branch in Alberta operates an extensive agent system and in their opinion, there would be no significant obstacles to a chartered bank establishing a similar system in the Yukon. An agent system of this type could provide local residents with a wide range of deposit/withdrawl

services, and it could even be extended to include a number of personal and commercial loan services. The cost of an agent system would apear to be within the capabilities of the Yukon Government and the banks, as the Alberta Treasury Branch system, which includes approximately 110 agencies with deposits of $150 million, costs approximately $1.3 million to operate annually (approximately $12,000 per year per agency).

4.7 OTHER ISSUES

A number of the other issues identified during the course of the study would be addressed, either in whole or in part, by many of the solutions and options discussed above. These issues, and possible solutions to them, are discussed below.

Special Requirements of Native Businesses

The study results have indicated that in general, native businesses tend to encounter many of the same financing problems and difficulties as other non-native businesses. However, the study also indicated that for a number of reasons the likelihood of a native owned business encountering financing problems is significantly higher and, in many instances, more acute. Specific problems which were frequently noted for native businesses include:

- difficulty of securing financing for businesses located on native land (primarily due to a lack of secure tenure)

- a general shortage of equity on the part of the owners of native businesses

- a lack of business skills on the part of owners and managers.

Based on these observations, the question was raised as to whether there was a need for additional programs directed at native businesses

The response received from the Study Advisory Committee, and the representatives of the native groups in particular, indicated that additional programs specifically targeted at native businesses should not be required. It was generally agreed that if the foregoing recommenations were adopted, especially those directed at meeting the needs of small businesses located in rural areas, then most of the financing requirements of native busineses should be met by the recommended programs.

The Advisory Committee members also noted that significant improvements could be made to existing programs designed to assist native businesses. One of the problems highlighted was the need to deal with a number of different programs and agencies in order to obtain financing, and the "Catch 22" situation which occurs when one agency's approval is dependant on another, and visa versa. A second problem noted was that many of the existing programs are too restrictive and the criteria for funding must be relaxed if the programs are to be effective.

Placer Mining

During the interview program, one industry which did indicate that it has a special financing problem was the placer mining industry. Generally, there were two reasons noted for this problem.

- first, placer mining is excluded from eligibility under the Small Business Assistance Program

- second, while support is available to the mining industry through the Mining Incentives Program, this support is primarily for the pre-production phase of mine development and placer mining does not qualify for assistance under this program

The question as to whether or not placer mining should be eligible for financial assistance is obviously a government decision. However, it is clear that this industry is not eligible for the types of financing assistance available to other industries in the Yukon.

Related Issues

Although beyond the scope of this report, during the study there were a number of issues noted which have a direct impact on the ability of some Yukon busineses to obtain business financing. While some of the issues have been discussed previously, these issues are summarized below:

- the need for businesses to deal with a number of different government regulatory agencies in order to obtain the necessary approvals. It has also been noted that in some instances these regulatory agencies may impose conditions on the business which are contradictory

- the difficulty faced by in the timber industry, due to the fact that they are only able to secure short term cutting rights

- the difficulty in financing businesses located on leased Crown or native owned land

- the difficulty of obtaining fire insurance in rural areas, and the impact this has on obtaining financing

- the difficulty experienced by small contractors in obtaining bonding

Depending on the business or industry, each of the above issues can have an important effect on a business's ability to acquire required financing.

5.0 CONCLUSIONS AND RECOMMENDATIONS

The access to capital study has clearly shown that Yukon businesses face significant problems and difficulties in their efforts to obtain business financing. While many of the problems identified are similar to those encountered by small businesses across Canada, the study has also shown that there are a number financing related issues which are unique to the Yukon. The challenge to the Yukon Territorial Government and the Government of Canada will be to support those options which assist Yukon businesses in obtaining necessary financing, regardless of whether or not the problems and difficulties identified are unique to the Yukon.

As the concluding section of this report, the following discussion is presented in two parts. The first part is devoted to a review of key findings and conclusions which have been drawn from the study, and which form the basis for many of the recommendations made in the study. The second part follows with a summary of the major recommendations.

5.1 CONCLUSIONS

A number of important conclusions have been drawn from the research undertaken during the study, and from the comments received from Yukon businesses, financial institutions and government officials. These conclusions have played an important role in defining the financing issues which must be addressed, and establishing a basis for the recommendations.

Briefly, the major findings and conclusions drawn from the study are as follows:

- **Support for Viable Businesses:** one point often emphasized during the interviews was that business financing programs must be targeted at businesses which hold the potential of becoming financially viable. One of the concerns expressed by both businesses and financial institutions was that government funding programs frequently encourage and support

many businesses which would never be financially viable without continuing financial assistance. Unless there are overriding social considerations, supporting non-viable businesses is viewed as both inefficient and inequitable.

- **Role of the Government:** many of the businesses interviewed indicated that they would encourage the development of assistance programs which are relatively simple, which limit the size of the bureaucracy required to support those programs, and which do not accord preferential treatment to any one type of business.

- **Duplication of Government Programs:** there is a prevailing view within both the business and financial communities that there exist significant overlaps and duplication in government assistance and funding programs. While the study has found this to be true to some point, this view is also a result of the confusion which exists regarding the number of government programs, their purpose, and how the programs relate to one another. There was much support for the concept of a true "One Stop Business Shop," where a business could file one application to access all applicable government programs.

- **Need for Equity Investment:** one opinion frequently expressed by both the banks and established businessmen was that a major reason why small businesses have difficulty accessing capital is the inability, or unwillingness, of the principals to contribute equity investment. Recognizing the high risks associated with many small businesses, it may be simply unrealistic to expect lending institutions to provide debt financing without a substantial equity investment by the owners of that business. Recognizing this viewpiont, it must also be appreciated that in the Yukon many of the owners of small businesses have neither the income or assets which will allow them to inject additional equity into their businesses.

- **Need for Security:** recognizing the relatively high risk associated with many small businesses, it can be understood why banks and other lending institutions seek a high level of security for any loans issued. It must be appreciated that a bank does not view a loan as "risk" capital and that it expects full recovery of the loan, whether through the repayment of the loan or through the realization of the security. This approach can sometimes lead to an overly conservative approach to lending, and in some cases lead to a refusal of financing to businesses which might be quite capable of fully repaying any loans they receive.

5.2 RECOMMENDATIONS

The recommendations presented below follow directly from the discussion of the different financing issues, solutions and options presented in Section 4. In our opinion, if implemented these recommendations would provide an effective means of addressing the major access to capital issues identified during the course of the study. It is important to note that many of the recommended programs and initiatives described below will require further detailed examination before being implemented, and it may be the case that upon closer investigation some of these recommendations may no longer be considered practical.

It should also be noted that three basic principles had a major influence in determining the recommended options. Briefly, these principles were:

1. **Importance of Equity:** the recommendations are intended to provide a means of promoting equity investment in small business. A number of the individuals interviewed stated that many Yukon businesses suffer from a lack of equity, and to their own detriment have an over-reliance on debt financing.

2. **Minimization of Direct Government Involvement:** while many of the recommendations such as an expanded program of loan guarantees would require direct government participation, an emphasis has been placed on developing mechanisms which will allow small businesses to utilize private sector sources of capital.

3. **Avoidance of New Programs:** with confusion already created by a mulitude of different government assistance programs, there was a deliberate attempt to avoid recommending the establishment of new programs oriented towards specific areas or industries. The recommended programs have a wide scope and should be readily adapted to meet the needs of most small businesses.

The recommendations are as follows.

Equity Requirements

1. Private Investment Incentives: it is recommended that the Yukon Territorial Government consider the establishment of a program which would encourage equity investment in small Yukon businesses. The program would allow investors to invest relatively small amounts of capital into qualifying businesses, and in return receive a grant or tax credit from the Yukon Government for a percentage of their investment. The grant or tax credit would likely range from 30% to 50% of the investment.

2. Small Business Equity Corporations: it is recommended that the Government consider legislation allowing the creation of small business equity corporations. The program would encourage investors to consolidate capital within small business equity corporations and re-invest those funds into qualifying Yukon small businesses. The minimum investment into an equity corporation would be in the range of $20,000 to $25,000, and investors would receive a grant ranging from 30% to 50% of any investments into qualifying small businesses.

3. Public Venture Capital Companies: the public venture capital company concept implemented in other areas of Canada is not considered appropriate to the Yukon. However, the Government may wish to establish a mechanism which would allow it to inject equity directly into specific industries or regions, with rural small businesses as a prime example. The Yukon could invest directly through an agency such as the Yukon Development Corporation, or indirectly through an intermediary such as Dana Naye Ventures.

Debt Financing

4. Loan Guarantees: it is recommended that the Yukon Government consider the establishment of a program of loan guarantees which would provide guarantees in excess of the $85,000 limit now stipulated by the Small Business Loans Act. Recommendations regarding the amount of loan guarantee could be made the responsibility of an agency such as the Small Business Assistance Program Advisory Committee. The primary objective of the expanded loan guarantee program would be to assist in the financing of viable businesses which were unable to obtain financing due to such factors as inadequate (or undervalued) security, the inability to obtain a long term lease, or the inability to obtain adequate insurance. As most small businesses in the Yukon would normally qualify under the current $85,000 limit, it is expected that this program would primarily benefit businesses which are located in rural areas and which frequently face problems with security, tenure and insurance.

5. Direct Loans: recognizing the priority which the Yukon Government has placed on rural development, the Government may also wish to establish a program which would allow it to direct loan funds in support of rural small business. This could be accomplished directly through an expansion of the Small Business Assistance Program, or indirectly through an intermediary such as Dana Naye Venture.

Business Training and Education

6. Video Tape Instruction Seminars: it is recommended that the Yukon Territorial Government, in association with organizations such as the Chamber of Commerce, and the FBDB, consider the development of a series of business seminar video tapes. These video tapes would be made available on a loan basis to individuals and businesses. The Business Development Office has recently begun development of such a program.

Business Advisory Services

7. Management Assistance Program: in association with local Chambers of Commerce, the Yukon Territorial Government should consider the establishment of a management assistance program which would provide direct management consulting services to businesses located in rural areas.

8. Business Advisory Services by Local Businessmen: in conjunction with local Chambers of Commerce, it is recommended that the Yukon Government consider the development of local business advisory committees, the purpose of which would be to provide advisory services to assist developing local businesses.

Physical Access to Financial Institutions

9. Incentives to Encourage Establishment of Rural Bank Branches: it is recommended that the Yukon Government continue its efforts to determine what incentives may be required to encourage the establishment of bank branches in rural areas. Should these efforts prove unsuccessful, it is further recommended that the Government give consideration to the establishment of a financial institution, similar to the Alberta Treasury Branches, which would have a mandate to provide financial services throughout the Yukon.

10. Local Agents: in rural communities where a bank branch would not be feasible, it is recommended that the Yukon Government support the appointment of local agents who would provide residents with deposit/withdrawal services, and possibly personal and loan services. The agents could represent the Yukon Government, although the preferred option would be to encourage one of the chartered banks to establish a system of agents.

Other Issues

11. Native Requirements: as native businesses tend to face many of the same financing related problems as firms owned by non-natives, it is recommended that current and proposed programs be reviewed in order to ensure that they meet the needs and are accessible to native businesses.

12. Placer Mining: should the Yukon Government decide that additional support is necessary for the placer mining industry, it is recommended that placer mining be made eligible for funding under the Small Business Loans Act, the Small Business Assistance Program, and other programs outlined in this report.

13. Duplication of Programs: the recommendations made above would overlap and partially duplicate a number of the current small business assistance programs. Therefore, before implenenting these recommendations, it is recommended that the government conduct a thorough review of the proposed and existing programs in order to identify areas of overlap and duplication.

Even without the introduction of new programs, a strong argument can be made for conducting a more detailed examination of the overall organization and scope of small business assistance programs in the Yukon. As noted earlier, many individuals interviewed during the course of the

study were confused by the number of small business assistance programs, and expressed concern over the apparaent duplication of services.

14. Non Financial Issues: the study has identified a number of non-financial issues which can seriously restrict a small business's ability to obtain necessary financing. It is recommended that the government examine these issues in order to determine what measures can be taken to reduce the negative impact which they have on business financing. A list of the issues identified during the course of the study includes: lack of longer term cutting rights for forestry; difficulty in obtaining financing for business located on Crown owned land; difficulty in obtaining fire insurance in rural areas; the difficulty faced by small contractors in obtaining bonding; and the need to deal with a number of regulatory agencies in order to obtain required licenses and approvals.

As a final note, it should be recognized that the above recommendations relate solely to the need for new, expanded or revised programs. No attempt has been made in this study to determine the level of funding required for existing or proposed programs.

APPENDIX A

APPENDIX A
SMALL BUSINESS FINANCING REQUIREMENTS
INDIVIDUALS AND ORGANIZATIONS INTERVIEWED

WATSON LAKE

Micheal Basarab	-	Klondike Cabins Ltd. (forestry, manufacturing)
Carol McIlmoyle	-	variety store - general merchandise
Leo Dionne	-	Leo's Service - service station
Hanna Spahmann	-	Camp-Ground Services Ltd. - service station, self-serve gas bar, grocery store, campground, laundromat
Ken Rindero	-	K & D Enterprises - distributor - video rentals, sales agent
Michelle Wank	-	Wye Tec Services Ltd. - Kal Tire - service station, fuel distributor, propane retailer
Jim Holt	-	Holt Insurance
Diane Holmquist	-	prospective investor
Mike Stogrin	-	Sanitary Operating Services Ltd.

BURWASH LANDING

John Trout	-	Kluane Wilderness Village Lodges Ltd. - store, restaurant, lounge, motel, service station, etc.
Max Fuerstner	-	Livingston Placers Limited - placer mine

DESTRUCTION BAY

Yvonne McBride	-	Kluane Lake Tours - fishing camp, camper park

TESLIN

Doug Hogan Jr.	-	North Lake Motel and Cafe Ltd. - hotel, cafe, etc.

ELSA/MAYO

Drago Kokanov	-	Silver Trail Motel

CARMACKS

Howard Tracey	-	Carmacks Hotel Limited - service station, grocery store, laundromat, hotel, restaurant, bar
Fred Carriere Bernie Buerlen	-	Roxy Trading Post Ltd. - store, post office

DAWSON CITY

David Gould	-	Placer miner
Norm Ross	-	Placer miner
Fred Berger	-	Arctic Drugs - drugstore
Boyd Gilles	-	Northern Kat Ltd. - tractor repair
Joan Kerr	-	Dwason Farmers Market Ltd. - grocery store
Len Millar	-	Placer miner
Ray Held	-	Chartered Accountant
Giovanni Castellarin	-	Triple J Motel - hotel, restaurant, bar
John Wierda	-	businessman, contractor
Peter Jenkins	-	Dawson City Hotels Limited

STEWART CROSSING

Bobi Desjarlais	-	Stewart Crossing Lodge Limited - hotel, cafe, store, campground

WHITEHORSE

Mel Stehelin	-	Aurora Realty Ltd. - numerous hotels, retail store, etc.
Rob Borud	-	Northerm - manufacturing
Marlene Fuerstner	-	Kutters 1982 Inc. - hair styling studio
Klaus Hoenisch	-	Accounting service - controller, Hougen's Limited, investor
Donna & Philip White	-	Amulet Holdings Ltd. - Alcan Automotive Centre Ltd. - retail, garage and developer

ELECTED OFFICIALS

Bill Brewster	-	M.L.A. - Kluane
Howard Tracey	-	former M.L.A. - Carmacks

ORGANIZATIONS

Watson Lake Chamber of Commerce
Whitehorse Chamber of Commerce
Yukon Chamber of Commerce
Klondike Visitors Association
Yukon Visitors Association
Klondike Placer Miners Association
Teslin Indian Band
Yukon Indian Development Corporation Ltd.

CREDIT INSTITUTIONS

Toronto Dominion Bank - Paul Goldsmith

Bank of Montreal - Ian King

Bank of Nova Scotia - Roy Renton

Royal Bank of Canada - Bill Schmietenknop

Neil Mackie

Canadian Imperial Bank of Commerce - Whitehorse - Ed Stratichuk

- Watson Lake - Edna Parkinson

One Stop Business Shop - George Privett

- Bert Parry

Federal Business Development Bank - Brian Forward

Roynat - Kent Billingsley

Dept. of Regional Industrial Expansion (DRIE) - George Lerch

APPENDIX B

APPENDIX B
SOURCES OF BUSINESS FINANCING
INDIVIDUALS AND ORGANIZATIONS INTERVIEWED

CORPORATE BANK OFFICES - YUKON AND BRITISH COLUMBIA REGIONS

1. **Canadian Imperial Bank of Commerce** - Vancouver
   Mr. Elliot, Superintendent Credit Department

2. **Toronto Dominion Bank** - Vancouver
   Mr. McPhie, Manager Commercial Credit

3. **Bank of Montreal** - Vancouver
   Mr. Toffoli, Senior Commercial Banking Manager

4. **Bank of Nova Scotia** - Vancouver
   Mr. Ledger, Manager Commercial Credit

5. **Royal Bank of Canada** - Prince George
   Mr. Peterson - Manager Lending

YUKON BANK BRANCHES (BANK MANAGERS)

6. **Canadian Imperial Bank of Commerce**
   Mr. Sratichuk - Whitehorse
   Ms. Parkinson - Watson Lake

7. **Toronto Dominion Bank**
   Mr. Goldsmith - Whitehorse

8. **Bank of Montreal**
   Mr. King - Whitehorse

9. **Bank of Nova Scotia**
   Mr. Renton - Whitehorse

10. **Royal Bank of Canada**
    Mr. Schietenknop
    Mr. Mackie Whitehorse

OTHER BANK SOURCES

11. **Canadian Bankers Association**
    Mr. Droppo - Victoria

12. **Bank of Canada** - Vancouver

13. **Roynat**
    Mr. Billingsley

YUKON FEDERAL/TERRITORIAL PROGRAMS

14. **Small Business Development Office/One Stop Business Shop**
    A Hunt - Director
    G. Privett
    B. Perry

15. **Federal Business Development Bank**
    B. Forward

16. **DRIE**
    G. Lerchs

OTHER SOURCES

17. **Manitoba** - Community Economic Development Fund
    Mr. Mosgrove - Winnipeg

18. **Saskatchewan** - Northern Saskatchewan Revolving Fund
    Mr. Bogart - L'Orange

19. **Alberta**
    - Alberta Opportunity Company
    - Vencap Equities Alberta Ltd.
    - Alberta Treasury Branches
    - Alberta Small Business Equity Corporations

20. **Newfoundland** - Rural Development Authority
    Mr. McGraton